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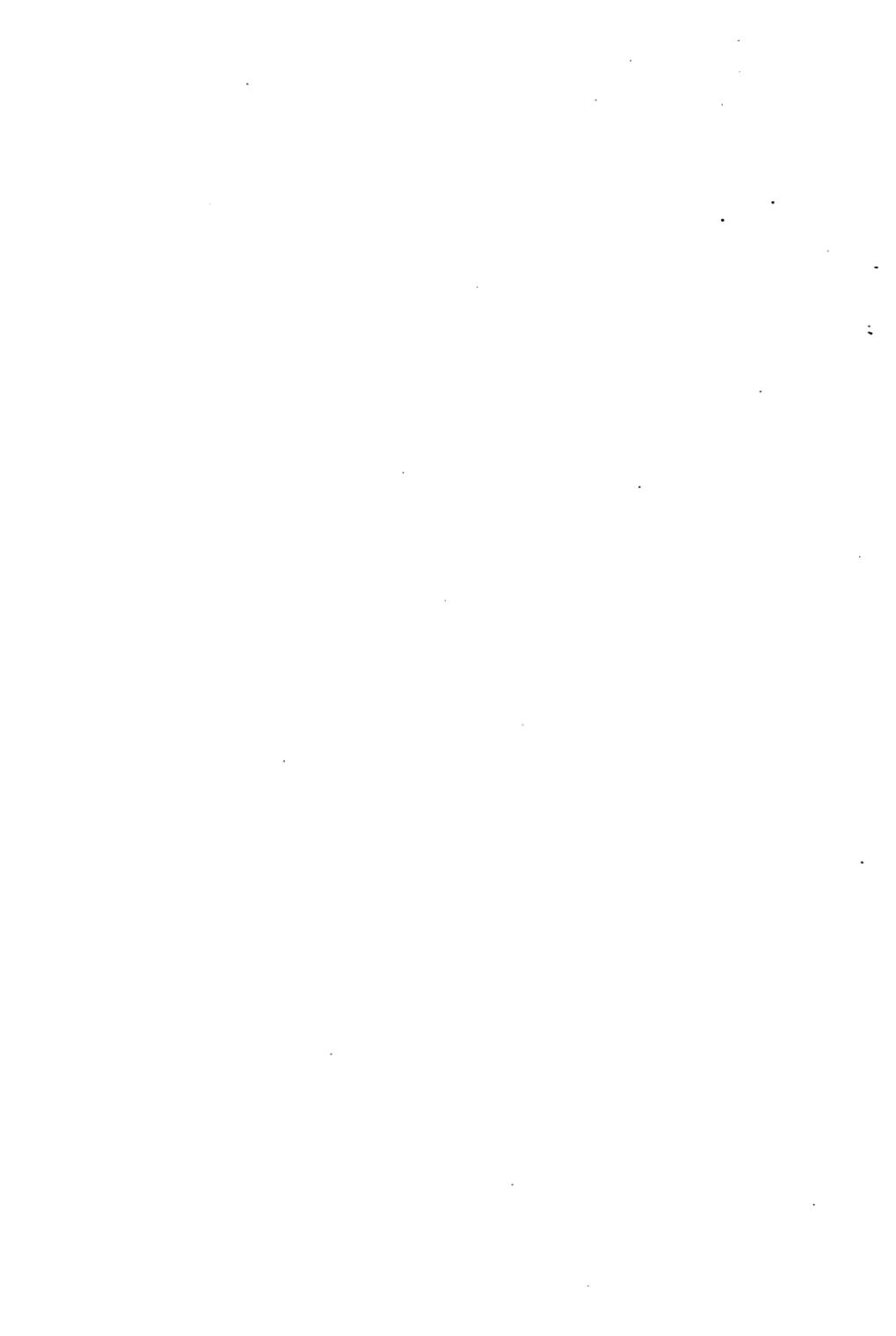
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SOCIAL INSURANCE

Compiled by
JULIA E. JOHNSEN

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EXPLANATORY NOTE

The Handbook on Social Insurance, in keeping with the plan of the series, aims to present impartially general information and leading arguments pro and con on this important social question. In addition to an introduction and the material on the general subject, historical and otherwise, reprints are included on Workmen's Compensation, Health, Maternity, Old Age, and Invalidity Insurance, Benefits to Widows and Orphans, Mothers' Pensions, and Soldiers' and Sailors' Insurance; the aspects of compulsory and state insurance are also covered. A large selected, classified, and partly annotated bibliography is also given. The brief aims to sum up leading general arguments on the subject rather than to particularize on any specific form of social insurance. It can be adapted to many variations of the subject.

While designed specifically for debaters, the Handbook aims to present compact, comprehensive, and up-to-date information in a popular form for all students and readers. No effort has been made to use highly technical material and details of interest mainly to experts.

For excellent earlier material on the subject the reader is referred to the Debaters' Handbook on Compulsory Insurance, and to that on Mothers' Pensions, both compiled by Edna D. Bullock, and partly covering the field of the present Handbook.

J. E. J.

March 1, 1922.

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ORGANIZATIONS

FAVORABLE

American Association for Labor Legislation. Social Insurance Committee. 131 E. 23rd St., New York.

International Permanent Committee on Social Insurance. Paris.

OPPOSED

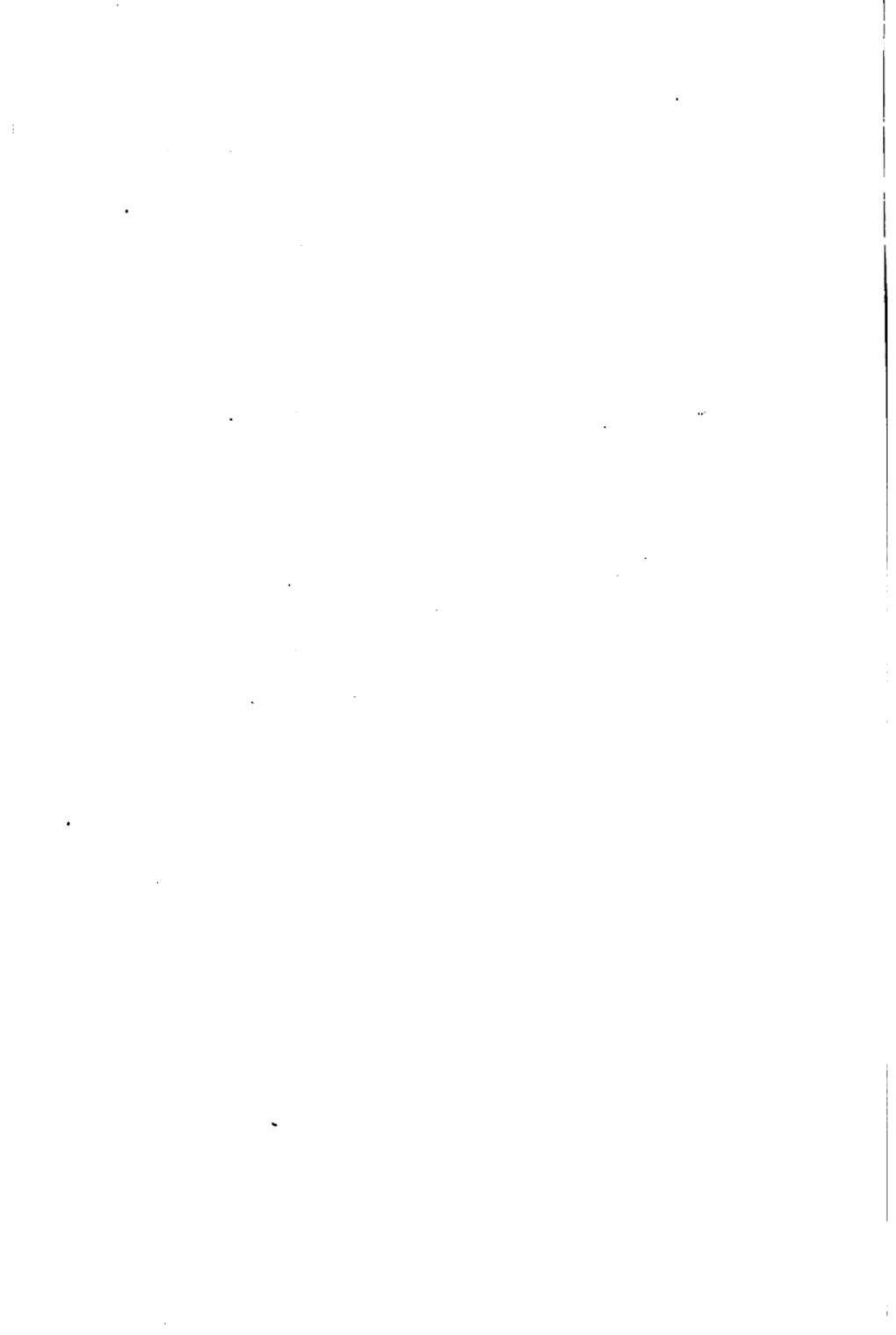
Insurance Economics Society of America. 168 N. Michigan Ave., Chicago, Ill.

Insurance Federation of America. 429 Majestic Building, Detroit, Mich.

National Civic Federation. 1 Madison Ave., New York.

National Workmen's Compensation Service Bureau. 13 Park Row, New York.

Workmen's Compensation Publicity Bureau, 80 Maiden Lane, New York.



BRIEF

RESOLVED: That an adequate system of social insurance should be extended throughout the United States to afford protection to persons of limited income.

INTRODUCTION

The question implies specifically

- I. Protection against industrial accidents and diseases, sickness, old age, and invalidity.
- II. The reasonable improvement and effectiveness of existing inadequate laws.
- III. Enforced contributions by industry or the state, according to present standards of recognized responsibility, and, where deemed equitable and just, enforced contributions by the individual also.

AFFIRMATIVE

- I. The need exists for a system of social insurance.
 - A. The extent of suffering and want connected with the contingencies under discussion is great.
 1. They are frequently accompanied by loss of income and depletion of savings.
 2. Much untreated illness exists.
 3. There is mental fear, insecurity, uncertainty and humiliation.
 - B. Present provisions for these contingencies are inadequate.
 1. Individual efforts are ineffective.
 - a. The problem is too large to be cared for by individual thrift.
 2. Private insurance is inadequate.
 - a. Too expensive.
 - b. Not always appreciated.

- c. Too many hazards.
- d. Fails to reach those who need it most.
- 3. Trade unions and fraternal organizations cannot protect.
 - a. Membership is limited and consists of the least needy working classes.
 - b. Not all provide benefits.
 - c. Benefits when provided are inadequate.
 - d. Their funds are financially insecure.
- 4. There is no adequate protection through industry itself.
 - a. It is given only to a limited extent.
 - b. There is no guarantee of benefits.
 - (1) They depend on whims and financial security.
 - (2) When reinsurance is carried, insurance companies may cut benefits.
- 5. Public agencies of relief cannot meet conditions.
 - a. Their field is limited.
 - b. The suggestion of charity is obnoxious.
- 6. Preventive agencies and welfare work cover different needs.

II Social insurance is desirable

- A. For moral reasons.
 - 1. Society is collectively responsible for social conditions.
 - 2. Industry is responsible for conditions originating or augmented by employment.
 - 3. Social justice requires the extension of protection now accorded to a few.
- B. For social reasons.
 - 1. It would conserve life and health.
 - 2. It would protect families.
 - 3. It would lessen charitable and like burdens.
 - 4. It would promote sanitation and preventive work.
 - a. Premiums would be based on merit rating.
 - 5. It would not injure existing agencies and incentives to thrift.
 - 6. Compensation would be given when most needed

- C. It would be an industrial benefit.
 - 1. It would relieve industry from special liability and litigation.
 - 2. It would conserve labor and turnover.
 - 3. It would not injure trade unions or effect wages.

III. The proposed insurance is feasible.

- A. It has proved workable in practical experience
 - 1. Abroad, in nearly every form.
 - 2. In laws of separate states.
 - a. No state has ever repealed such a law.
- B. The cost is not prohibitive
 - 1. No greater than the burden of charity and social waste.
 - 2. More evenly distributed than individual misfortune, hence easier to bear.
 - 3. Public cost can be met by taxation.
 - 4. Industrial cost can be charged to production.
 - 5. Cost has not proved prohibitive abroad.
- C. It can be carried as state insurance.
 - 1. This will conduce to economy.
 - a. Will eliminate profits.
 - b. Will lower operation cost.
 - 2. Will eliminate discrimination as to beneficiaries.
 - 3. Will give security.
- D. Compulsory insurance will give maximum results.
 - 1. Will reach all.
 - 2. Will reduce rates by distribution.

NEGATIVE

- I. There is no need of a system of social insurance.
 - A. The existence of suffering and want is exaggerated.
 - 1. There is no reliable knowledge of its extent.
 - 2. We have the best social conditions in the world.
 - 3. Morbidity and mortality rates are being steadily reduced.
 - 4. Distress and suffering are due to a multitude of causes.

B. Provision now exists for relieving the conditions it is proposed to remedy

1. Individual efforts.
 - a. Thrift.
 - b. Family solidarity.
 - c. Private insurance.
2. Organizations offer protection.
 - a. Trade unions have an immense membership.
 - b. Fraternal organization.
3. Industrial welfare, preventive, and other movements.
4. Charitable and philanthropic efforts, etc.

II. Social insurance is not desirable.

A. Morally.

1. Destroys independence and responsibility.
2. Undermines self-respect.
 - a. Is a modified form of charity.
3. Is unfair.
 - a. All pay for benefits which go to the few least capable individuals.

B. Socially.

1. There is danger of abuses, such as malingering.
2. It would have a deleterious effect on medical practice and quality of service.
3. It would be merely palliative, not reach causes or cure poverty.
4. Would delay other measures, such as better wages, hours, etc.
5. Would interfere with existing beneficial organizations and work.
6. Would set up socialism.

C. It is objectionable industrially.

1. It would be an unjust burden upon industry.
 - a. Industry does not create the contingencies.
 - b. It is unfair to well-regulated industries to be taxed for conditions due to ill-regulated ones.
2. It would depress wages.
 - a. Contributions would virtually be a higher wage, and tend to keep down real wages.

3. Would undermine trade unions.
 - a. Discourage membership.
 - b. Retard activities.
 - c. Interfere with beneficiary features.

III. The proposed insurance is not practicable.

- A. It would be complicated.
 - I. European experience is against it.
 - a. It has been of doubtful value in Germany and Austria.
 - (1) Particularly as regards medical benefit, service and morale.
 - b. It has been defective and inefficient in England.
 2. Experience here is not favorable to it.
 - a. It has not met the claims of its advocates.
 - b. There is a staggering list of defects in present laws.
- C. The cost would be excessive.
 1. Would be a needless burden on industry.
 2. Would be a heavy burden on the state.
 - a. Benefits will increase enormously if at all adequate.
 3. Workers would be unable or unwilling to pay.
- D. State insurance would be inexpedient.
 - I. Would not be economical.
 - a. The state would not be as efficient and economical as the private companies.
 - b. The cost of state insurance is greater than is generally shown.
 - (1) Overhead and part administration through other bureaus and departments is larger than estimated.
 - (2) A large part of cost is paid by taxation.
 - (3) The state would lose the taxes now paid by insurance companies.
 2. Administration would be poor.
 - a. The state would be handicapped by lack of funds and agents.

BRIEF

- b. Would lack technical experts.
- c. Delays would occur.
- 3. It would be unsound.
 - a. Of doubtful constitutionality.
 - b. Based on financially unstable and actuarially unsound principles.
 - c. Funds would not be guaranteed by the state.
- 4. There would be political control or manipulation.
- 5. Regulation of private companies alone is needed.

E. Compulsory insurance would be undesirable.

- 1. It would be paternalistic.
 - a. It would be inquisitorial.
 - b. An infringement of liberty.

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SELECTED ARTICLES ON SOCIAL INSURANCE INTRODUCTION

Among current measures for the amelioration of social conditions increasing attention is being directed to what is known collectively as social insurance. The designation is an outgrowth of the term workingmen's insurance, and the movement is essentially an attempt through some action of governmental powers to protect persons of limited incomes from the economic vicissitudes pertaining to certain social hazards inseparable from the individualistic scheme of modern life.

There is little or no controversy as to the value of insurance for accidents, old age, and the rest, *per se*. Left to private initiative it is a matter of individual judgment, the desirability of which is generally accepted, but not necessarily elected. The problem of social insurance arises when society elects to decide whether the man of small means shall be protected automatically against those exigencies that undermine standards of normal existence; whether the state shall compel insurance, or open the opportunity to terms more favorable and within easier reach, or even extend benefits or "pensions" gratuitously as a matter of social right. The principle of compulsion in modern society is ever jealously watched. Paternalism, the intrusion of the state on private business and on personal affairs, is regarded with suspicion even by those who would be benefitted. Contrasted to this is the misery arising from social want, which statistics increasingly confirm, with frequent deterioration or submergence, insecurity, and fear, and the fact that society must, in any event, pay the cost. Until the causes of penury and want can themselves be overcome, in an equalized society, there must exist a dignified form of relief, or there must remain forms from which sensitive units of society will inevitably shrink, in charitable relief, philanthropies and overstrain upon individuals, not to speak of the failures which society will support in homes, penal institutions and the like.

Authorities are not in strict agreement as to what should be included under the term social insurance. In its narrowest

SELECTED ARTICLES

sense it is used to refer to health or sickness insurance, this aspect being uppermost at present. Hoffman has pointed out the full comprehensiveness of the generally understood definition. By common consent are included old age pensions, which are not strictly insurance; mothers' pensions are included by some as a form of benefits to widows and orphans, while others ignore them. Group insurance, which was initiated in the United States about 1912 is ennumerated by some, but its right to a place is questionable. It is purely a voluntary measure between employer and employees, and private insurance companies, and except for being a protective group measure it lacks the essentials of true social insurance. Again, employers' liability is linked to many discussions of accident compensation; nevertheless it does not offer "assurance" of compensation, but is dependent on suits at law and proof of negligence. It may properly be considered the forerunner of workmen's compensation, and the tendency of progressive legislation is to replace it exclusively by this latter development. Popular usage of the term social insurance may thus be held, at the present time, to include most generally the following eight forms: workmen's insurance or accident insurance, health or sickness insurance, maternity benefits, old age pensions, invalidity insurance, survivors' insurance or benefits to widows and orphans (including mothers' pensions), unemployment insurance, and war risk or soldiers' and sailors' insurance. These are frequently re-grouped in various ways, as for instance to include health and maternity insurance in one measure, and old age and invalidity insurance in another. Social insurance is frequently either or both state and compulsory; the trend is for the increasing growth of these forms. They are therefore given some special consideration.

The earliest development of social insurance was in Europe, the definite beginnings of the movement being the establishment of national compulsory sickness insurance and of compulsory accident compensation in Germany in the years 1883 and 1884. The principle of insurance is itself very old, and the elements of protection had been tried out in a multitude of separate organizations and forms before that time. The motive of both the German laws was held to be an effort to combat the socialist movement by providing more security for the masses. Legislation in other countries soon followed. Compulsory old age and invalidity insurance was established in Germany in 1889; as early, however, as 1850 voluntary subsidized old age pensions had been

instituted in Belgium, and Canon Blackley had, in England in 1878, propounded a scheme for compelling each member of the community to purchase from the state the right to an old age pension. Unemployment insurance in a compulsory form was tried in the notable St. Gall, Switzerland, experiment of 1894, but proved unsuccessful. Its next conspicuous development was in the Ghent system of subsidies to trade unions, initiated in Ghent, Belgium, in 1901, the principle of which has been widely adopted abroad for current unemployment insurance schemes, Great Britain and Italy being at present the only countries having compulsory unemployment insurance. Compulsory survivors' insurance had been adopted by Austria in 1906 and by France, in connection with old age and invalidity insurance, in 1910. Maternity insurance was embodied in a number of the systems of sickness insurance, and occupational diseases were made a part of compensation legislation in England in 1906. The forms thus initiated have prompted the spread of social insurance throughout practically every European country, in systems more or less inclusive.

In the United States the first form of social insurance to be developed was workmen's compensation, its growth being due to the dissatisfaction and injustices involved in employers' liability legislation. The year 1911 saw elective compensation established in New Jersey, and state insurance in Washington. Before that date a few laws had been initiated, but they had failed of adoption or had been declared unconstitutional, as in the case of Maryland, Montana, and New York. A Federal law had also been established in 1908, but this was only for civil employees in a few hazardous employments; this was subsequently broadened in 1916, while in 1920 by Federal legislation was established protection for civil employees against old age and invalidity. Agitation for mothers' pensions was begun in 1908, but legislation appears to have been established first in 1911, in Kansas City and Illinois. Maternity protection was first offered in 1912 in Massachusetts; in harmony with its aims a measure was passed by the United States Congress in 1921 for "the promotion of the welfare and hygiene of maternity and infancy," an advance toward the measure of benefits desired by the advocates of maternity insurance. In Boston, 1916, was held the first American legislative hearing on health insurance, and by 1917 bills relating to it were introduced into the legislatures of fifteen states. Interest in this measure was greatly

stimulated by the publication of data relating to draft rejections, and it is interesting to note, too, the development of outside mutual and cooperative health movements, among these a noteworthy experiment at the University of California. Attempts have been made to introduce unemployment insurance, the first bill being introduced in Massachusetts in 1916, and a bill being before the Wisconsin legislature in 1921. The peculiar difficulties it offers are apparent, and it is usually felt that a national system of public employment bureaus is necessary for its success. It receives increasing consideration during periods of widespread unemployment, but although Great Britain recently found it desirable to extend its Unemployment Act to cover twelve million workers, in this country its prominence was somewhat eclipsed by the tendency to emphasize unemployment as an industrial rather than a social responsibility, subject primarily to regulatory and preventive measures and reabsorption. The year 1918 marked the notable development of soldiers' and sailors' insurance, under the War Risk Bureau. The rehabilitation movement resulting from the war is an important adjunct of this insurance and also of workmen's compensation. It is not, however, handled only through these two systems, but also through departments of public welfare, labor and industry, and through educational boards and commissioners. Variations of rehabilitation or reeducation are advocated in the training of dependents; and H. Stanley Devons suggests, in connection with unemployment insurance, required training in the same or some new trade for the purpose of keeping up efficiency or skill during periods of enforced idleness, or of facilitating placement in a new line.

In spite of the substantial beginnings of social insurance in this country, the laws are far from uniform or adequate. There is, however, a constant movement of amendment in the interest of broader and more liberal provisions; and the complete and ideal system which its advocates would like to consider as the minimum protection guaranteed to every individual as a fundamental basis of living, might be said to be in process of attainment. The complexity of the question is shown in that, in addition to the theory and principal, it holds more than the usual number of technical points that must be given consideration, such as, in part, its scope or the classes covered, the cost, scale of compensation, period of compensation, security of payments,

waiting period, medical care, death benefits, administrative agencies, degree of state control, and provisions for dependents and rehabilitation. Provisions may vary from those narrow and restricted to a fault, to those which cover every need; benefits may conduce to fair standards of living or merely protect from starvation; the different forms of insurance require each separate consideration as to provisions, administration and safeguards.

Universal insurance, which would socialize insurance in the highest sense and eliminate obnoxious class demarcation, is sometimes suggested. This would disregard wealth or poverty and simply establish conditions under which insurance or a pension would become a social right. Strangely enough this extreme proposition has been seized upon, also, by an agent of one of the insurance companies as, in an elective form, an alternative to the less acceptable compulsory insurance. Advocates, however, are not usually so extreme; their ideal is the protection only of those who require it.

The principle of insurance presupposes that protection can be obtained by those who are likely to need it. Insurance companies have developed highly technical and perfected organisms, and their competitive nature has induced them to vie with one another in many new extensions of service. In industrial and group insurance they have attempted to meet the needs of the classes of small means. The protection of private companies, however, can be given only where the risk is good; the ends of insurance thus fail to be met where there is the most need. The proposition therefore is not so much the protection of those who are peculiarly likely to succumb to the hazards, but of those who have the average or above average chances of escaping; those, in fact, who can pay a premium commensurate with the degree of possible need. The various forms of protection, moreover, are rarely given except as separate propositions.

We may rarely look for complete advocacy or opposition to social insurance in any one place. Many, favorable to the principle itself, oppose compulsory insurance, or either competitive or monopolistic state funds. There are various opinions, also, as to the relative desirability of the various forms, or opposition may be based on specific provisions of acts alone. The opinion of labor is divided. The movement has been largely directed from outside its ranks, by those who may be said to have at heart the social welfare and see in the contemplated organization

the means of accomplishing it from the economic side. Labor particularly resents direction or arbitrary control from outside its ranks, and any retardation of its own special movements, such as unions, better wages, and the like; at the same time labor, through individuals, particular organizations, and sympathy with more or less of the social insurance program, may be said to be favorably inclined. The question particularly intrudes upon the interests of commercial insurance companies, employers who are frequently expected to contribute, fraternal organizations, and physicians. In regard to the latter John B. Andrews has written: "Such sincere opposition as has come from physicians, and there is not a little of it, can be traced in many cases to dissatisfaction with medical arrangements under workmen's compensation laws which in most cases were enacted without the aid or special knowledge of the medical profession."

Another ground for opposing views on the subject lies in the two principles of self help and social help. The one view is that a certain definite strength is developed through necessity and struggle, and that softness and lack of development may result through excessive outside care. George Bernard Shaw points out, in regard to this principle, that adverse pressure may be applied advantageously only to the extent that there remains ability to react. The other view is that society in any development has never lost its inherent responsibility to help the needy, and that interdependence is a social law. Critics endeavor to cast opprobrium upon social insurance also by stigmatizing it as merely a form of charity, in contra-distinction to its advocates vision of a broad social consciousness.

In the general discussion of social insurance we are presumably to understand a reasonable degree of acceptance as regards the various forms and the various provisions; not perhaps, as yet, the ideal, complete, or uniform law, but the practical, workable, comprehensive foundation.

JULIA E. JOHNSEN.

March 1, 1922.

SOCIAL INSURANCE GENERAL DISCUSSION

MODERN CONCEPTIONS OF SOCIAL INSURANCE¹

In recent years there has been a remarkable development in the application of the principles of insurance, and among the branches which have reached a considerable scope and magnitude is that of social insurance. In its widest sense, the term would, of course, cover the insurance of all classes in the community against all risks to which the social organism is exposed. It is ordinarily employed, however, in a much more restricted manner, viz., to denote insurance of workmen, as a distinctive class, against sickness, accident, death, old age, or other adversity. It is in this restricted sense that the term will be used hereinafter. Through recent progress in economic studies and in the science of government it has become manifest to publicists and economists that, in the purview of any one section of insurance, it is essential to embrace others of an analogous nature, if a proper understanding of the section in question is required. In regard to the various branches of social insurance this remark applies with special force.

To meet the demand for social insurance a number of systems have been devised. Insurance or relief funds have been created, either on a compulsory or voluntary basis, by the central government, by national or by local bodies, by groups of workingmen, by industrial establishments, and by employers and employees operating conjointly; and, furthermore, commercial insurance companies have created industrial insurance departments, in which premiums are collected in small amounts and at frequent intervals. These various schemes of insurance, though under different forms and systems of organization and management, are all designed for the benefit of wage-workers and

¹ By G. H. Knibbs, Commonwealth of Australia Statistician. In Social Insurance. Report. p. 11-13. September, 1910. Commonwealth Bureau of Census and Statistics. Melbourne.

persons earning small salaries, and their purpose usually is (1) to compensate to some extent for the loss of wages or salary occasioned through accident, sickness, or other disability; (2) to obviate privation to dependents through death; and (3) to furnish a sufficient sum to pay funeral expenses, etc.

The fundamental doctrine underlying the whole fabric of social insurance, a doctrine which has to some extent become concrete in the countries of Europe is, that a proper regard for the solidarity of each community requires that all classes belonging to the community should be protected by the strength of the community as a whole, against the incidents of misfortune on the class or on the individual. This notion of solidarity, viz., that the strong must carry the weak, is regarded as essential to a favorable development of the nation, and it is recognised that the national welfare requires sacrifices to be made by those able to make them, for the well-being of its weaker elements. In other words, it is recognised that, in order to advance the prosperity of a nation as a whole, and to conserve its vital forces, it is better that a misfortune falling on an individual should be distributed and borne lightly by the community, rather than that the individual should be crushed by the weight of his own misfortune. And although the results of an efficient system of social insurance must necessarily be philanthropic in their effect in individual cases, yet the basic principles of such a system are neither philanthropic nor individualistic in their nature, but aim at the general betterment of the community and at the proper guidance of national destiny.

The great changes in social and in industrial life since the middle of the last century had resulted in alternations in the relations between employers and workmen, and a new social classification of the population had brought the wage-earners into great prominence. Workmen had become politically free and had acquired the same political rights as their employers. Socially and economically, however, they were dependent. Petty industries developed into manufactures on a large scale, and the steady growth of factories and of large industrial enterprises greatly increased the number of workmen. The leading inventions of last century in gas, steam, electricity, etc., increased the risk of accident, while the extension of chemical manufacture, containing poisonous substances, caused serious damage to

health. Artisans were required to work under modern conditions of manufacture in small and crowded places, often side by side with unskilled workers.

The two factors of modern industry, employer and workmen, were developing rapidly on different lines. The ancient feeling of solidarity between the two parties ceased, and it became more and more evident that the individual workman was no longer able to fight for himself against the dangers which beset his occupation, and which resulted in sickness, accident, or death.

The general progress of civilization has in fact involved far-reaching changes in the constitution of the social organism, and the economic position of the working classes is now far less assured than formerly. Today, it is realized that legislation cannot overlook such eminent changes, but must in a sense keep pace with them, and attempts have therefore been made to secure the solidarity of the working classes by systems of insurance against overwhelming disaster, as, for example, might arise from sickness, accident, old age, or general incapacity to work.

Legislation with regard to public charity funds was in existence at a comparatively early date, but this proved unsuitable, since public charity is an offense to the legitimate self-respect of the workman, and operates to deprive him in many cases of his citizen rights. The establishing of associations and clubs for mutual help among workmen also proved unsuitable, as did voluntary insurance. These systems, as a rule, appealed only to the stronger and better situated classes of workmen, while the economically weaker section kept aloof, partly from inability to pay the contributions. All these circumstances called for the institution of something better, the transformation of the civil law into a social law, which was based, not on the idea of pity, but on a sentiment of justice. That it is the duty of the state to care for its needy members, not only for humanitarian reasons, but also for reasons of state policy, is a view which has continually reinforced itself. Among the poorer classes who constitute the majority of the population, and are generally the least educated, it is essential that it should be realized that the state is not merely a necessary but also a beneficent institution, and exists as much for the interest and benefit of the poorer classes as for the richer classes of the population. Nothing will inculcate these ideas better than specific benefits conferred by legislation.

SOCIAL INSURANCE¹

The term "social insurance" is of comparatively recent origin and its meaning has not yet become entirely definite, although it has almost entirely replaced the older name, "workmen's insurance." It has been used by a few authors as including all those forms of insurance relating to contingencies affecting persons as contrasted with those affecting property, but such use would include common kinds of life insurance as well as some other forms which are not usually considered social insurance.

The following probably states as clearly as is possible in a definition the idea intended to be conveyed by most writers using the term.

Social insurance is a plan for making provision against the economic losses happening to wage-earners and other persons of moderate resources and their dependents by reason of accident, sickness, maternity, disablement, old age, and unemployment by means of funds made up of regular contributions, either voluntary or compulsory, from the assured, their employers, and the state, or some of them, out of which indemnity for such losses are paid, and in this way distributing such losses throughout the entire community instead of allowing them to crush the unfortunate individuals to whom they happen. It may also include other social welfare features.

The following are other definitions given by different writers:

Social insurance, in the American sense, may be said to comprehend all efforts, methods, and means to provide, in conformity to insurance principles, a sufficient pecuniary protection of wage-earners and others in moderate circumstances against the economic consequences of industrial accidents, disease, whether general or occupational, incapacity for work, whether temporary or permanent, partial, or complete, but the result of accident, disease, or physical infirmity, and finally, dependence in old age resulting from sickness, infirmity, or even improvidence and personal neglect. (Frederick L. Hoffman. In Conference of Charities and Corrections. 1914. p. 349.)

In brief, "social insurance" may be defined as the method of organizing relief by which wage-earners or persons similarly situated and their dependents or survivors become entitled to

¹ From Preliminary Report to the Social Insurance Committee of the National Convention of Insurance Commissioners, by Rufus M. Potts, Insurance Superintendent, State of Illinois, Chairman. United States Congress, House Committee on Labor. Hearings on H.J. Res. 159. 64th Congress, 1st session, April 6 and 11, 1916, p. 194-9.

specified pecuniary or other benefits on the occurrence of certain emergencies. The right to these benefits is secured by means of contributions from wages or by the fact of the insured person's employment or by his citizenship or residence in the country. (24th Annual Report. Committee of Labor. 1909. vol. I. p. 4.)

A recent writer gives the following:

The term "social insurance" is as yet very little understood by the vast majority of English-speaking nations. The first necessary step, therefore, is not so much a technical definition as a description or, rather, circumscription of the term, and the distinction between social and ordinary commercial insurance may be best emphasized by first indicating the characteristics common to both. . . There is the comparatively small class of large and small property owners who are able not only to appreciate all of the economic advantages of insurance but to pay for them. . . But there is the very much larger class of wage-earners or persons in similar economic conditions whose need of insurance is very much greater, because the hazards are many and grave, but who, nevertheless, are unable to meet the true cost of insurance conducted as a business. To provide them with such insurance or some equivalent form of protection has become the concern of the modern progressive state, and this is properly the field of social insurance. (Rubinow. Social Insurance. 1913. p. 3 and 10.)

A very good description and definition of social insurance is given in a recent publication of the United States Public Health Service:

As soon as certain economic risks have been recognized as menacing the wage-worker and his family, the insurance method of meeting the risks has been used. These economic risks may be generally classified as those causing the death of the breadwinner in a family, the physical inability of the breadwinner to perform labor, and his inability to find employment. For a large proportion of the wage-earners of any country these risks are too great to be provided for by individual effort and too little appreciated to be provided for even if the individual were able to do so. Hence, social provision through the distribution of loss has been found to be necessary. This kind of social provision has come to be known as "social insurance." (Bulletin No. 76. Public Health Service. p. 48.)

After one understands what social insurance is the question naturally arises in his mind whether there is in the United States at the present time any need for such a system, and, if so, to what extent it is needed and the best method by which it may be put into practical operation.

The happiness and prosperity of the whole population of the Nation—the greatest good to the greatest number—should be the supreme purpose of all political and social institutions. Even from the mere financial standpoint the people of the nation are its chief asset and human efficiency is the basis of all industrial or financial achievements.

Any governmental institution, any social plan, such as social insurance, which gives good promise of contributing to the welfare of the almost incomprehensibly great number of men, women, and children composing our population is worth the most careful and earnest consideration of every patriotic citizen.

Knowing the existence of widespread poverty and resulting misery and economic loss, before we can devise useful and effective remedies therefor we must consider what are its sources and causes. Social workers find that there are many causes, but they do not agree as to all of them, nor as to their relative importance. For our purpose it is sufficient that they can be grouped into two general classes:

1. Those which are the results of the imprudent or evil conduct of the individual himself—such as idleness, drunkenness, vice. These are personal to each man and can not be removed by any system of social insurance. So far as betterment of the poverty resulting from these causes is concerned, it can only be accomplished by rational charity and personal reform from religious teachings, or other means of regenerating the fallen. Indiscriminate financial aid from any source furnished to those whose poverty arises from these causes only tends to perpetuate such poverty. If aid to such is attempted through compulsory insurance it is very unjust to the workers and the thrifty, because it deprives them of a part of the proceeds of their labor to feed and clothe idlers, drunkards, vicious, etc.

2. The other broad division of the causes of poverty are those which occur without the personal fault of the sufferer, such as accident, sickness, premature death of father or husband, disablement, preventing ability to labor, involuntary unemployment, old age, etc. The statistics which will be given below in the detailed consideration of these various causes of poverty will show that the bitter sea of poverty which submerges millions of our people is fed largely from these non-personal sources.

The almost immediate effect of these causes in producing

want and suffering arises in large part from the immense increase both relative and absolute in the number of men employed in manufactures and other industries which has separated more than half of the workers of the world from the soil and has herded them into industrial towns and cities where, when any interruption of employment does come, since all food must be brought from a distance and purchased at high prices, want and suffering begin as soon as there is a cessation of income. In the ages preceding the industrial revolution, when the masses of the population lived directly on the land, although there was a greater percentage of population in a state of poverty, still actual suffering for food did not begin as quickly because there was nearly always some store of food on hand, and the standard of living was not so high, so that the pinch of poverty was not felt as quickly as at present, nor was its effect so severe.

It is only the poverty which is the result of causes unavoidable from the standpoint of the individual and occurring without his personal fault which can properly be prevented or alleviated by social insurance. For this class of poverty financial assistance through social insurance will not cause any debasement or degradation of the recipient, but, on the other hand, by enabling him to meet the inevitable emergencies and misfortunes of life, will buildup and strengthen the character of the recipient, because the provision is the just result of his own foresight and self-denial in contributing to create at least a part of the fund out of which the insurance relief is paid.

AMERICAN PROBLEMS IN SOCIAL INSURANCE¹

The subject was first officially considered by our government in a report on compulsory insurance in Germany, published by the United States Department of Labor in 1893. The author of the report was Mr. John Graham Brooks. This work was followed in 1898 by a treatise based upon personal investigations into European systems of social insurance by Professor William Franklin Willoughby, then of the United States

¹ From article by Frederick L. Hoffman, Statistician, The Prudential Insurance Company of America, Newark, N.J., National Conference of Charities and Correction. Proceedings. 1914:346-55.

SELECTED ARTICLES

Department of Labor. In 1901 the Bureau of Labor Statistics of Massachusetts published a carefully prepared report on the insurance of workingmen, with special reference to European countries. In 1908, Professor Charles Richmond Henderson of the University of Chicago published a large volume on industrial insurance in the United States, which title is somewhat misleading, in that the work practically constitutes a treatise on social insurance effort in this country, including the work of local relief societies, benefit features of trade unions, insurance by fraternal societies, pension systems of the federal government, the states and municipalities, as well as railways and other corporations.

During the last decade the United States Bureau of Labor has issued a number of special reports on the social insurance systems of European countries, including two large volumes on workmen's insurance and compensation systems in Europe, in 1909. The same Bureau has issued special bulletins on civil service pension systems in foreign countries. In 1908 the Bureau issued an exceptionally interesting and valuable report on workmen's insurance and benefit funds in the United States, which constitutes an introductory treatise to the subject of social insurance from an American point of view.

Two years later, the Russell Sage Foundation, realizing the increasing importance of workmen's insurance, had a special study made of the subject in European countries, by Messrs. Lee K. Frankel and M. M. Dawson, with the cooperation of Mr. Louis I. Dublin. In the same year, a small volume on social insurance, a program of social reform, was published by Professor Henry R. Seager, Professor of Political Economy in Columbia University, the outcome of the Kennedy Lectures of 1910 in the School of Philanthropy. In 1912 the American Association for Labor Legislation created a special Committee on Social Insurance, which matured in the First Annual Conference on Social Insurance, held in Chicago, on June 6th and 7th, 1913. The presiding official of the Conference was Professor Wm. F. Willoughby, author of the first American treatise on workmen's insurance, issued in 1898. During the year 1912, Mr. I. M. Rubinow delivered a course of fifteen lectures on social insurance before the New York School of Philanthropy, subsequently published in book form by Henry Holt & Co., in 1913.

Additional to these convincing illustrations of an active and

growing American interest in the subject of social insurance, reference may be made to the consideration of the subject by the Joint Committee of the Senate and Assembly of the state of Wisconsin on "The Affairs of Life Insurance Companies" in 1907; a volume on State Insurance as a Social and Industrial Need, by Mr. Frank W. Lewis, published in 1909; a treatise on Insurance and the State by Professor F. W. Gephart, published in 1913; and an address on Economic and Political Considerations of State Insurance in the United States, 1860-1908, on the occasion of the International Actuarial Congress, held in Vienna in 1909, and another on American Public Pension Systems and Civil Service Retirement Plans, on the occasion of the International Actuarial Congress, held in Amsterdam, in 1912. Finally, mention requires to be made of the report on accident prevention and relief, based on an investigation of the subject in Europe, with special attention to England and Germany, together with recommendation for action in the United States of America, by Messrs. Schwedtman and Emory, for the National Association of Manufacturers, published in 1911.

Social insurance in the American sense may be said to comprehend all efforts, methods and means to provide, in conformity to insurance principles, a sufficient pecuniary protection of wage-earners and others in moderate circumstances against the economic consequences of industrial accidents, disease, whether general or occupational, incapacity for work, whether temporary or permanent, partial or complete, but the result of accident, disease or physical infirmity, and finally, dependence in old age resulting from sickness, infirmity, or even improvidence and personal neglect. Additional thereto, the conception includes the economic security of widows and orphans of wage-earners killed or injured in the course of their work, and the financial support of mothers during the period immediately preceding and immediately following childbirth. Finally, and as a most recent development, the term includes unemployment insurance. In the sense of this broad and comprehensive definition, social insurance, from an American point of view, includes any and all forms of insurance protection, established for the benefit of wage-earners and other persons of small incomes, regardless of the fact whether the provision is on a compulsory or a semi-compulsory basis, or whether voluntary or involuntary, provided, however, that the cost of the system is met, wholly

or in part, by the state or the employer, or both, with or without supplementary contributions from the beneficiaries. Under this conception, all forms of private insurance, or strictly voluntary insurance, where the entire cost is paid for by the beneficiaries, would lie outside of the scope of social insurance, but it requires to be taken into account that it is rather the aim than the method which characterizes social insurance, and where there are obvious and vast social benefits resulting from any particular form of wage-earners' insurance, it would not seem an undue enlargement of the term to bring such institutions or methods within the scope of the present inquiry.

In the sense of this definition, the following American methods are referred to as typical illustrations of wage-earners' insurance, more or less conforming to the concept of social insurance in the more narrow and restricted European sense of the term:

1. National and international labor organization benefit funds
2. Local labor organization benefit funds
3. Railroad relief funds
4. Establishment benefit funds
5. Hospital funds and corporation medical service
6. Industrial benefit societies
7. State and savings bank insurance
8. Civil service pension funds
9. Corporation service retirement and service disability allowances
10. Industrial health and accident associations, whether corporate or fraternal
11. Group insurance, Industrial insurance, etc.

In a more restricted sense, social insurance is defined by the Bureau of Labor as "The methods of organized relief by which wage-earners or persons similarly situated and their dependents or survivors, become entitled to specific pecuniary or other benefits on the occurrence of certain emergencies. The right to these benefits is secured by means of contributions from wages, or by the fact of the insured person's employment, or by his citizenship or residence in the country. The various forms of social insurance may be designated as

1. Accident
2. Sickness
3. Maternity
4. Invalidity and old age
5. Unemployment
6. Insurance for widows and children

In other words, as stated before, it is rather the aim or the object of social insurance than the method, which conditions the precise meaning of the term, but for the present purpose it would seem advisable to adopt the more comprehensive American viewpoint, than the more restricted definition, based exclusively upon European experience.

SOCIAL INSURANCE IN THE UNITED STATES¹

Social insurance may be defined as mutual risk bearing from which the elements of competitive costs and private profits are excluded. Social insurance is not necessarily state insurance; any form of mutual non-competitive and non-profiteering insurance is true social insurance. Accepting this definition, it is evident that insurance against property losses due to fire, flood, hail, lightning, etc., may be covered by social insurance as well as insurance against personal losses due to accident, illness, old age, invalidity, unemployment, and death. In this country it is usual to refer to workmen's accident compensation as a form of social insurance. In fact, but very few of our states have provided in their compensation laws for community insurance against the losses due to accidents, and in but three or four states are the state accident funds so organized as to exclude the persistent and pernicious elements of competitive costs and private profits. Social insurance against property losses is much more in evidence in this country than social insurance against personal losses. The insurance of shipping instituted in the United States Treasury Department at the outbreak of the great war is an instance of true social insurance. In this instance private, profiteering insurance was absolutely inadequate to cope with the situation. Insurance rates in the private companies were utterly prohibitive, so the United States govern-

¹ By Royal Meeker, United States Commissioner of Labor Statistics. National Conference of Social Work. Proceedings. 1917 : 528-35.

ment went into the insurance business and by reason of its virtual monopoly in this field was able to eliminate the costs of securing business by competitive advertising and agenting and to distribute losses of ships and cargoes over such a large number of ship owners and cargo owners that costs were brought down within reason. The results have been most beneficial, as otherwise shipping rates would have driven shipping from the seas more effectively than German raiders and submarines.

The term social insurance as used today, however, always refers to insurance against personal hazards of workers or those in the lower income groups. In this sense there is almost no such thing as social insurance in the United States. By way of illustration, take the state of Pennsylvania which has a state insurance fund in which employers may insure against the risk of injuries to their workers from industrial accidents. The Pennsylvania state fund, however, cannot be correctly designated as an example of true social insurance because, first, it does not provide for a true communal risk bearing, and, second, the element of private profits is not eliminated from the premium rates. The risk is not carried as a community risk because the insurance business is still carried on as a competitive business in Pennsylvania. Instead of industrial accident risks being carried mutually either by the state, local communities or different industries, we find the state dotted over with private, profit-seeking, intensely competitive insurance companies. Profit, not mutual apportionment of losses, is the underlying principle of all insurance undertaken as a private enterprise. In Pennsylvania it is necessary for the state fund to compete with private insurance companies in securing business, therefore the heavy overhead charges inevitable in private, profiteering, competitive insurance still persist.

The insurance business is essentially a monopolistic business just as truly as the telephone, telegraph and railway businesses are monopolistic. We are beginning to learn the lesson finally that it is wholly inadvisable and extravagant to attempt to control street railway charges by the method of competition. The surest way to make street car service exorbitantly expensive and inadequate is to charter rival street railway corporations to build their net-works of lines not for the accommodation of the public but for the securing of the largest net return upon the investment. This leads inevitably to duplication of lines and

equipment, the piling up of all kinds of overhead charges and, therefore, necessitates a higher fare in order to pay for these wasteful duplications and inefficiencies.

The socializing of insurance means eliminating competition and the consequent advertising expenses and other charges due to rivalry. Socializing insurance will bring about four great economies which will reduce enormously the present excessively high overhead charges which put any adequate insurance beyond the reach of the ordinary workingman or workingwoman.

1. It will eliminate the expense of getting and keeping policy holders. The items of expense which rank *casualty*, *health*, and the so-called *industrial* insurance among the most expensive luxuries offered for sale are the expense of writing new insurance and of renewing expired or lapsed policies.

2. It will eliminate the expense of collecting premiums, which in the case of *casualty*, *health*, and *industrial* insurance means a very large proportion of the very high expenses for these kinds of insurance.

3. It will eliminate the expense and risk of properly investing the funds collected in premiums.

4. It will eliminate the expense of profits whether these profits go in dividends to shareholders or in unearned salaries to officials.

All these items of expense will immediately disappear upon the establishment of true social insurance, and insurance instead of being a prohibitively expensive luxury will become what it should have been from the beginning a cheap necessity within the means of every person who needs it.

My sole interest in social insurance is to put the cookies on the lower shelf,—to provide *adequate* protection to *all* members of society who need protection. If to reach this end it becomes necessary to upset established traditions and to injure vested interest, we should not hesitate. "The greatest good to the greatest number" should be our motto.

The subject of social insurance is one of the most vital questions confronting us at this time. Attempts have been made to minimize the importance of insurance and lay emphasis upon the prevention of accidents, diseases, and death as of vastly greater importance than compensation insurance against these hazards.

Our workmen's compensation commissions have, as I see it, three great functions to perform:

1. To prevent all preventable accidents
2. To cure all curable injuries
3. To compensate all compensatable disabilities

It will be admitted without discussion that it is immensely more important to prevent a workman from getting his hands crushed in the calendar rolls in a rubber mill, than it is to give him surgical and hospital treatment to restore as fully and as quickly as possible the use of his maimed members. But not all accidents can be prevented. It is axiomatic that the surgical and hospital treatment needed to transform a *total* permanent disability into a *partial* permanent disability is immensely more important to the injured worker and to society than the doling out of compensation payments. All experience shows that money expended in restorative treatment of disabled men and women is the best kind of good economy. Yet the sums the commissions may expend for medical, surgical, and hospital treatment range from nothing in Washington and Wyoming, \$25 to \$75 in Pennsylvania, up to \$300 for special cases in West Virginia. Nine states and Porto Rico have no specific limit on expenses for restoration treatment, but one of these states, Texas, limits the time of such treatment to one week, and Oklahoma allows only 15 days' treatment.

Although adjusting and awarding compensations are much less important than the first two functions named, this third function is by no means unimportant. Indeed, the compulsory payment of compensation for industrial accidents is the only thing that brought home to employers the fact that accidents are the worst form of extravagance; that every accident costs money; that a high accident rate connotes inefficiency in shop management; that most industrial accidents are not providential and predestined, but, on the contrary, are preventable; and that a failure to prevent preventable accidents is inhuman as well as costly.

We are beginning to realize that accidental injuries are not foreordained from the foundation of the earth. We have not yet begun to think in this way about illness or even about accidents other than industrial accidents. I feel very strongly that the workmen's compensation laws should be extended in scope immediately to include all occupational illnesses, and, as soon as public sentiment can be educated, to include, all accidents whether in the course of industry or not. It makes no difference to an injured man and his family whether his leg is burned

off by molten metal in a foundry or whether it is cut off by a trolley car in the street. The incapacity he suffers is the same in either case. The payment of compensation for incapacities suffered through street accidents will add considerably to the amounts paid in compensation, but it will not add to the accident *burden*. On the contrary, it will lighten the burden which now falls with crushing weight upon the victims of non-industrial accidents and their families, by distributing their burdens more equitably and by directing attention to the fact that the burden exists. One of the most peculiar and exasperating psychological phenomena to be found anywhere is the pseudo-economic notion that accidents and illnesses cost nothing as long as the state makes no provision to pay anything to the victims or their dependents. So long as we collectively and persistently keep our eyes and minds closed, accidents and sickness have no existence for us. Compensation laws did not create industrial accidents. They merely provided a more equitable distribution of that burden which heretofore was being carried by relatives and friends of the victims and by the poor-houses and other charitable institutions, on the part of the public. As soon as employers were obliged to bear some part of the burden of industrial accidents, they became much interested in Safety First, with the result that accident rates, if not absolutely lower than formerly are doubtless much lower than they would now be had there been no compensation laws enacted.

Our compensation laws must be simplified and strengthened in their administrative features as well as extended in scope if they are to accomplish what we have a right to expect of them. The administration of our compensation laws is now too much taken up with the relatively unimportant business of merely handing out compensation doles to injured workmen. Our industrial boards and commissions are doing all too little in the way of preventing accidents and are doing almost nothing in the way of medical, surgical, and hospital treatment to restore injured workers to industry as quickly and completely as possible. This failure on the part of our compensation administration is due to many causes. The most important cause is lack of understanding by our state legislatures and the consequent paucity of appropriations to enable the boards and commissions to do the work they ought to do in the way of accident prevention and medical, surgical, and restorative treatment.

Administration is further handicapped and obstructed by the

auctioneering method of handling claims, for which the private insurance companies are responsible, ably aided and abetted, I am sorry to say, by the legal and medical professions. Most of the time of the boards and commissions, that I have visited, is taken up with the hearing of cases. In almost all cases a lawyer represents the injured worker or his family and another lawyer represents the insurance carrier, whether it be a private insurance company or the employer. The procedure resembles nothing so much as the times honored institution of the auction sale. The worker with his injuries is placed upon the auction block. The commission acts as the auctioneer and the insurance carrier represents the bidder. The auctioneer varies the monotonous auctioneering formula, "How much am I offered?" by occasionally asking the "auctionee" "How much will you take?" The results obtained are not such as to inspire confidence in the future of compensation legislation framed on the existing models.

One of the most powerful and telling arguments used to secure the enactment of compensation legislation was the argument that it would do away with the evils and ill-feeling generated by the legal bickering incident to settlements under the old employers' liability system. At first the practice under compensation legislation showed a most commendable improvement, eliminating or circumscribing the activities of the ambulance-chasing lawyers. Recent practice shows, however, that the ambulance-chasing lawyer is again in the field. Aided by the fee-chasing doctor, he is in danger of becoming a worse pest than under the employers' liability system.

Accident boards and commissions are made up for the most part of men untrained in the traditions and practices of the legal profession. If hearings before these bodies are to be conducted by cheap lawyers in an atmosphere of tawdry legal profoundity, the results are bound to be disastrous. The foolish, time-consuming questions asked by self-seeking lawyers of equally self-seeking physicians invariably arouse the ire of the layman, untrained and unaccustomed to the intricacies of legal quibbling and the dignity of the "law's delays." As a consequence, an extremely irritated board may be exasperated into doing grave injustice to one or both parties in a case.

The only cure for this serious condition which threatens to break down the effectiveness of compensation legislation is to

socialize our workmen's compensation laws. By that I mean the absolute exclusion of casualty insurance companies by the writing of risks under the workmen's compensation laws. The making of private profits out of the misfortunes of the workers is intolerable. It was a costly and inexcusable blunder to have allowed the casualty companies to make use of the compensation laws for the purpose of exploiting the injured workmen for profit. The way to remedy this blunder is to remedy it. All stock insurance companies should be excluded at the earliest possible moment from writing workmen's compensation insurance. All incentive for meddling in the administration of workmen's compensation laws should be taken away from insurance companies.

The next logical step after the revamping and extension of our workmen's compensation laws would be the enactment of invalidity and old age insurance legislation. If a practical way can be found, I should favor contributory insurance to cover these hazards. However, I regard the payment by the worker in whole or in part, for insurance against invalidity and old age as a mere detail. It makes little difference in the results whether the workers pay or the state pays, as is demonstrated by the operation of the British non-contributory Old Age Pension Act. Administration is greatly simplified and rendered cheaper if insurance premiums are assessed on the different industries or the community as a whole.

For some time past attention has been centered upon health insurance almost to the exclusion of all other forms of social or pseudo-social insurance. In fact, the term social insurance has been perverted in the minds of many to mean merely health insurance. As was to be expected, some of the most powerful insurance companies have professed a profound friendliness for the general principle of health insurance at the same time that they have strenuously fought any practical program for the establishment of a health insurance system.

Many curious arguments have been urged against health insurance. It is stated, on the one hand, that illness is relatively negligible in this country, and, on the other hand, that it is so widespread that any insurance scheme would necessarily break down because of the enormous expense involved. On the third hand, it is stated that we know nothing about how much illness there is in this country—whether there be much or little. It is

also argued that illness has none of the disastrous consequences in this country which obtain in the poorer and more populous European countries. It is asserted that the working people have incomes sufficient to enable them to hire physicians to care for themselves and their families; that a job always awaits the worker upon his recovering from illness. The experience of social workers certainly does not confirm these allegations. Illness is all too frequent in this country and is fraught with most serious consequences. Until after the outbreak of the great war unemployment had been the greatest curse of the workers of the country. Even today in the face of what is commonly denominated by employers as a terrific dearth of labor, men are still being scrapped at the age of forty, while in European countries men continue in active employment well beyond the age of sixty. Even if it is now true that workers who do not have too many white hairs may readily find employment, that has nothing to do with the question of providing adequate medical, surgical, and hospital treatment for the worker when he is ill and the payment of money benefits in order to sustain his family in something akin to decency during the period of his illness.

It is alleged that there are voluntary methods of providing adequately for working people. It is asserted confidently that nothing is known about the extent and the adequacy of voluntary benefit funds of trade unions, establishments, and mutual associations. It is a sufficient answer to this allegation to call attention to the 23rd Annual Report of the United States Commissioner of Labor in which are given the results of a very complete study of these voluntary sickness benefit funds. At the present time the United States Bureau of Labor Statistics is engaged in making another study of trade union and establishment funds. The conditions as shown in the 23rd Annual Report of the Commission of Labor Statistics have not materially changed. None of the trade union sick benefit funds provides for medical, surgical, and hospital treatment. Only a very few provide sanatoria and homes for the aged and disabled. All the voluntary agencies combined make quite inadequate provision for only a small minority of workers and they the least needy of them all.

Under the voluntary system, if it be lawful to call such chaos a system, the people who are in most need of sickness and other insurance do not get it at all and only those who are best situated economically are able to purchase insurance.

If I believed that social health insurance was merely a system for dealing out doles in relief to the families and dependents of sick workmen, I would have very little enthusiasm for it. It is because I know that health insurance will call attention to the costliness of illness that I am in favor of universal compulsory health insurance. It took compulsory workmen's accident compensation to bring home to the employers the fact that every accident costs money whether it is compensated or not. We have already realized in part at least that accidents are terribly expensive; that the expensiveness of accidents did not begin with the enactment of compensation laws, but that some one must inevitably pay the piper. Before compulsory accident compensation laws were enacted the burden fell upon the workers almost entirely because the workers were least able to bear the burden and were, therefore, unable to escape bearing it. What is true of disabilities from accidents is true of disabilities from illness. Health insurance legislation can neither increase nor decrease the burdens due to illness, except as such legislation increases or decreases the amount of lost time due to illness. One effect of compulsory health insurance will be to remind employers very forcibly that sickness is uneconomical, wasteful; that sickness costs real money to the employer and the public; and that much existing illness is either preventable or curable.

A favorite argument against all social insurance is that it is socialism. This strikes me as being the most telling argument for socialism that could be uttered. Instead of condemning social insurance, it highly commends socialism. I do not happen to be a socialist, but if it is socialism to provide adequate protection to the lives, health and well-being of our working population, then let us have some more of the same.

Another stock objection to social insurance is the incompetence of public officials which leads to extravagance in administration. There is unfortunately much truth in this allegation. However, no trustworthy data as to the cost of state insurance as compared with private insurance has ever been worked out. From such data as exist, however, it appears that the premium rates under true social insurance could be increased 50 per cent because of incompetence and extravagance in administration and yet leave a margin in favor of social insurance as compared with private, competitive, profiteering insurance. If the public are unwilling to trust themselves to conduct insurance

economically, efficiently and honestly, they can still secure the benefits of social insurance by establishing mutual associations for the administration of the funds. A genuine mutual association has practically all the advantages of state conducted insurance mentioned above and it is free to conduct its affairs so as to secure the greatest efficiency.

AFFIRMATIVE DISCUSSION

INSURANCE OF THRIFT¹

If we could assume that all human beings were born with equal physical and mental stamina; that they were given an adequate preparation for life; that they never had to go without work for a great length of time; that they never had sickness of more than a few days duration; that they could hold their positions as long as they lived; that they will not live for an extended time beyond the point when they are compelled by advancing years to quit work; and that they will not die at a time when small children call for protection, we could rely upon individual thrift to provide for our wants throughout life. But life is not lived that way by the majority of people. Some are born with physical or mental weaknesses; some are handicapped by accidents or diseases in early life; some have sickness either of the worker or members of the family lasting months or years; in periods of depression some may be out of employment for months; large numbers live many years beyond the time when they can earn their living; while thousands die in the prime of life, leaving helpless dependents. Still others, from one calamity or another, such as fire, business failures, bank failures, and stock swindlers, lose the accumulation which they may have saved to meet life's contingencies. Mere saving by itself cannot provide safeguards against the overwhelming character of one of these many disasters that may come to the thrifty and thriftless alike. Individual thrift, as usually understood, cannot provide for these calamities because none of these calamities can be measured in the life of an individual.

No one can tell the extent to which one of these calamities may affect him. One cannot tell whether he is to be sick six days or six months during the coming year, or how many months unemployment may be forced upon him by business depression, or

¹ From article by John A. Lapp, Managing Editor of *Modern Medicine*. *Annals of the American Academy*. 87 : 21-6. January, 1920.

know the length of his years beyond working life. These are uncertainties which can be measured for a large group of people but which cannot even be approximated for a single individual.

A man may, by saving, accumulate \$10,000 and see it all swept away by a single prolonged illness. A thrifty couple may provide themselves with a home, but at sixty-five they cannot be assured that it will protect them for the three or the thirty years which they may yet live.

Causes for Economic Dependence

SICKNESS

Let us examine some of the hazards of life in greater detail. Sickness is the most calamitous of the hazards of life. A large part of our troubles find their roots in sickness. More people are doomed to economic dependence and destitution by sickness than by any other cause, or in fact by all other causes combined. Sickness picks its victims at random, sparing neither rich nor poor, thrifty nor thriftless. Yet the total amount of sickness is easily measured.

We know from innumerable statistical data that the average sickness for all working people will be about nine days every year. Now, if the total sickness were distributed evenly, nine days to each person, ordinary thrift could take care of the problem. If each man expects to lose nine days by sickness each year, he could lay aside a sum equal to nine times his daily wage and an equal amount to pay for medical care and he would thereby have a fund equal to the amount which he loses on account of sickness. It is absurd, however, to talk in terms of average amounts of sickness, and draw conclusions therefrom. Sickness does not distribute itself nine days to each person. Many escape entirely; a large part of those who are sick are disabled from working for only a few days. Some are sick for weeks, others for months, while a considerable number are disabled for years.

Instead of being distributed nine days to each person, the distribution in an ordinary year will be as follows: 80 per cent of the workers escape serious sickness; 20 per cent suffer the entire loss in a given year. Of the 20 per cent who are sick, 65 per cent are sick for less than four weeks; 20 per cent are sick from four weeks to eight weeks; 7 per cent are sick from eight

to twelve weeks; 6 per cent from twelve to twenty-seven weeks, 3 per cent for more than six months, and 1.3 per cent for more than a year. Applying these figures to the United States we find that of the thirty-eight million people engaged in gainful employment, the chief burdens of sickness for a year, excluding the insane, defective, and institutional classes, are borne by 7,600,000 workers. Of these, 4,940,000 are sick for less than four weeks; 1,520,000 are sick from four to eight weeks; 532,000 are sick from eight to twelve weeks; 456,000 are sick from twelve to twenty-six weeks; 228,000 are sick for more than six months, while 98,800 are sick for more than a year. The existing figures do not show us the number who are sick for more than two years or who are permanently disabled.

The distribution of medical cost tells exactly the same story. The bulk of families escape, while the burden falls disastrously upon those who happen to be sick for the longest periods and, of course, it falls at the time when the victim is least able to bear it. The conclusion from these figures is obvious. Ordinary individual thrift may provide against sickness for those who are disabled for short periods. It cannot provide against the calamity of a three, six, nine, or twelve months' sickness, which the figures indicate is suffered by more than three-quarters of a million working people every year.

UNEMPLOYMENT

The same story may be repeated with regard to unemployment, particularly in the great centers of population. Men cannot know whether the wheel of fortune is going to bring them continuous employment or whether they will be compelled to wait for weeks or months for the chance to earn a living. Periods of depression such as those of the winter of 1908 and the years of 1914 and 1915 compel thousands in industrial centers to use up the little savings which they may have or to depend upon friends or upon charity.

The calamity of unemployment is not so wide-spread, nor so severe as that of sickness. It affects primarily the wage-earners in the larger centers. Rural communities and small towns escape acute manifestations. The small owner or operator is not immediately affected. Moreover the loss is merely of wages, whereas in sickness, the loss is doubled through the cost of medical

care. A savings account will help in this as in any other emergency but it should not be relied upon to meet the uncertainty.

ACCIDENTS

The calamity of accidents falls also at random on the workers but the need for the distribution of the burdens, and the need for the distribution of the employer's liability have been so obvious that forty-two states have already passed workmen's compensation laws for industrial accidents, under which the economic burden is taken from the backs of the injured workers and distributed over all of the people. Thrift failed to meet the calamity of accident because the individual risk was not measurable. Insurance was applied to measure the risk for the group and ease the burden for the unlucky individual who was injured.

OLD AGE

When we come to the discussion of individual thrift as a provision for old age, we consider a hazard far more indeterminable for the individual than sickness, unemployment, or accident. The hazard of old age really involves all of the other hazards. If a man escapes serious illness and accident throughout life, both of himself and his family, and escapes long periods of unemployment, and has been thrifty and likewise possessed business ability enough to safeguard his thrift, he may have enough to meet the hazard of old age whether he lives one or thirty years beyond the time that failing physical powers compel him to quit work. Few, however, do escape one or another of the calamities of life, and the great majority approach old age with the necessity of relying upon their children or upon private or public charity to take care of them in their last years.

When a man has worked through life for meager wages, perhaps scarcely sufficient to maintain physical vigor, and from these meager wages has been compelled to meet individually the cost of sickness, accidents, and unemployment, he is not likely to be possessed of any considerable amount when he reaches the age of sixty-five, even though he be possessed of unusual qualities of thrift. The hazards of life prevent the majority from remaining independent in old age. Figures gathered by the Ohio Health and Old Age Insurance Commission indicate that among five hundred old people in private institutions for the aged, 40 per cent were there on account of previous sickness; 19.6 per cent on account of misfortune; 12 per cent an account of in-

temperance; 11.8 per cent on account of low wages; 10 per cent on account of improvidence, and 5.8 per cent unknown. Similar figures of sixteen hundred inmates of county infirmaries indicated that 36 per cent were there on account of sickness; 11 per cent on account of improvidence; 29 per cent on account of intemperance; 11 per cent on account of low wages, and the rest unclassified.

As indicative of the way in which people lose money, it was found that among one hundred and fifty former property owners, seventy had lost their property by business failure; sixty-one by poor investment; seventeen by bad loans; two by illness and nine by improvidence. These figures are merely illustrative of the hazards which must be met before reaching old age.

If we could assume that many people escape all of these hazards, and have at sixty-five years of age a small competence, we then come to the real hazard of old age. Most of the people at sixty-five are no longer employed. They must depend, therefore, upon their savings of former years. A few may have small business or farm interests which they continue to guide; a few skilled and professional workers remain in employment beyond this age; unskilled laborers have practically no employment. Those who have a small competence as well as those who have not, are faced with the problem of providing for an uncertain length of years.

Half of the people sixty-five years of age will live to be seventy-five. Of those who reach seventy-five, half will live to be eighty-one; and of those who reach eighty-one, half will live to be eighty-five. In a group of ten thousand people at sixty-five years of age, five thousand will live to be seventy-five; twenty-five hundred will live to be eighty-one, and twelve hundred and fifty will live to be eighty-five. It will be observed that a large number of aged people live more than twenty years beyond sixty-five. A goodly number live beyond ninety and ninety-five. The small savings at sixty-five must be spread over a possible span of one to thirty years to take care of the aged person. If the savings are large enough so that the income will provide annually for expenses, he is secure for the rest of his life unless of course the rising costs of living reduce the value of his income. In such case, he does not dare use any part of his principal because the principal is his safe-guard against dependency if he happens to live for many years. If he uses his principal he may later become dependent. If he depends upon the income, even if it is

sufficient for the time being, his life is one of uncertain, if not precarious, independence. The logical way for him to manage his affairs is to combine with his fellows through the medium of insurance to buy himself an annuity for as long as he may live. The individual cannot measure the hazards of old age for himself, but the group can measure the hazards for the whole because it can be figured exactly how much money is needed to pay a certain sum to the survivors in the group.

Individual Thrift Supported by Insurance.

We are faced then in the determination of thrift with several other important considerations:

1. The question of thrift is bound up with the question of wages. There can be no real thrift without adequate wages.
2. The saving of money should not be encouraged to the detriment of physical and moral stamina.
3. The calamities of life for the great majority cannot be provided against with certainty by individual thrift.
4. The hazards of sickness, accidents, unemployment, and dependent old age, while not measurable for individuals are measurable for groups.
5. Individuals, by combining together through insurance are able to distribute the extra burdens of life in such a way as to prevent individual calamity and thus enable one to provide by normal savings against abnormal contingencies.

Individual thrift is building houses upon sand unless supported upon the foundation of insurance. Individual thrift will help in normal contingencies, but will be of slight assistance, except in rare instances, in those serious calamities which should receive most careful consideration. The application of insurance principle in the safeguarding of thrift is the obvious solution of the problem. But this cannot be done by relying upon private initiative and enterprise. All experience shows that the bulk of the people are not forehanded enough to see the necessity for insurance. The great majority are fatalists in such matters as sickness, accident and dependent old age. Moreover private insurance increases the cost abnormally because of the expense of securing and maintaining business. From 50 per cent to 60 per cent of the premiums from casualty insurance go to the private owners for management and profit, and even greater per cents of premiums in burial insurance go for the same purpose. Purchasers of old age annuities pay large toll to private insurance

companies. It is entirely wrong to attempt to safe-guard thrift by compelling thrift to pay tribute to private profit. It is plain logic to suggest that thrift be safe-guarded by means of public, mutual, social insurance. It is the practical business-like way. Such insurance is collective public thrift. Business provides a depreciation fund for plant and machinery. Society should form a depreciation fund for human values. The fact that scarcely any of the hazards of old age and unemployment, and not 2 per cent of the hazards of sickness are provided against by insurance at present, indicate that existing insurance agencies are not solving the problem. The example of almost universal accident insurance for workmen in industries points to the proper solution of the problem.

COMPULSION VERSUS INDIVIDUAL LIBERTY¹

I do not see for an instant why we should mince this matter. If the labouring classes can make their own provision, and will do so, let them be shown how; if they can, and will not, let them be compelled.

Compulsion, in this connection, is a strong word, which may well startle a reader; but I beg him, of his patience, not to pronounce it a wrong word till he has read the remainder of my essay.

And lest he should impatiently throw it aside, I will address myself first to removing the grand prejudice (for it is nothing else) which makes the notion of compulsion savour of what some folk sneer at under the name "parentalism," and others rave against under the name of tyranny.

There is an ignorant but very prevalent idea that because some nations transact by government a number of matters which England leaves to the management of individuals, the Government of England not only allows, but on principle ought to allow, every man to do whatsoever is pleasing in his own eyes in matters which at all concern his personal interests; and that any government interference in a man's personal concerns is really, to use the absurdly misapplied phrase, "an interference with the liberty of the subject."

¹ From article, *National Insurance*, by Canon William Lewery Blackley. *Nineteenth Century*. 4 : 834-57. November, 1878.

Men talk with bated breath, and as if in fear and trembling, of the danger of such an interference, either in wilful obliviousness or in fatuous ignorance of the fact that such a liberty of the subject as they regard (or think they regard) to be a sacred palladium, is, and has long been, a rightly exploded hollow myth; and that its invocation, in opposition to any true social improvement, is but as the beating of a big drum, which, however it may drown a speaker's voice for a time, can never affect the truth of what he has to say.

For of course a man who trembles so at the thought of any interference with his liberty, knows, if he will reflect a moment, that it is interfered with terribly when he is compelled to make his cottages fit for habitation; is compelled to disinfect his clothes if he has had the small-pox; is compelled to have his baby vaccinated; is compelled to keep it off the streets; is compelled, mayhap, to send it to a board school, and is even compelled, if need unhappily be, to pay for its support in a reformatory. These are all startling interferences with the liberty of the individual subject; but the collective subjects are all the better for them, and, knowing this, have blown that silly bubble into thin air long ago.

And this might be sufficient answer to those who plead "the liberty of the subject" in opposition to any plan of compelling men to do what is admitted on all hands to be both their personal and social duty. But I will make the urgents of this objection answer it themselves, by challenging them with a question on their own ground. Given, A the provident, thrifty, frugal Englishman; B the improvident, wasteful, pauper Englishman. Which is the greater interference with the liberty of the subject—to make B provide for himself, by compulsion if need be; or to make A, *besides providing for himself*, provide for B as well, and by compulsion, as he has to do at present?

Can any reasonable man deny that the proposed treatment of B is a far less interference with the liberty of the subject than the present treatment of A? And must not the opponents of all such interference, to be consistent, admit that the less we have the better, and be bound in reason to approve the suggested change?

For, in a word, a tremendous compulsion exists now in this matter, but is exercised on the wrong persons, to the injury of the provident and to the moral ruin of the wasteful.

SOCIALISM AND SOCIAL INSURANCE¹

The new measures of social insurance which were indirectly caused by the organized socialist movement of Europe were at first received by the socialists with indifference and even a certain degree of hostility as methods calculated to improve and prolong the institutions of private capitalist exploitation of labor. But socialists soon changed their views on the subject and became the foremost advocates of the system. Today the demand for a comprehensive system of social insurance is included in every political program of socialism and in their practical parliamentary activity the socialist parties of all countries endeavor to secure the extension and improvement of the system. The socialist support of the system of social insurance rests on several considerations. The purely humanitarian aspect of the measure is not devoid of a strong and direct appeal to the socialists. Neither the philosophy nor the program of socialism are based primarily on sentimental grounds but on the acceptance of a theory of social and economic evolution operating in the direction of the cooperative commonwealth. But the socialists realize that the process of evolution is a slow and painful one, and in the meantime many millions of wage laborers are bound to suffer all the hardships inherent in the modern economic system. To relieve these hardships during the struggle for their complete elimination is a dictate of humanity as well as of wisdom. The uncertainty of the workers' existence is among the greatest evils of the modern system of wage labor. To the worker of scanty wages and little or no savings a sudden interruption in his earnings caused by industrial accident, sickness, disability, old age, or unemployment, is a dire calamity. Millions of workers and their families find themselves in such a helpless, destitute and tragic condition at one time or another and in the absence of a system of social insurance, modern society, mercilessly and unfeelingly, leaves them to their own misery, and quietly allows them to perish, passing on to the next lot of victims of individual exploitation and greed.

The socialists, moreover, have another strong motive for the support of the system of social insurance. Modern socialists expect the realization of their program not as a result of a sudden revolt of the masses driven to desperation by suffering

¹ From article by Morris Hillquit. National Conference of Social Work. Proceedings. 1917 : 525-8.

and misery, but as the outcome of a process of gradual and planful reforms to be achieved through concerted, intelligent and vigorous struggles, political and economic, conducted by a well-organized and powerful working class. Every measure calculated to enhance the physical and moral standards of the workers is therefore an aid to the practical cause of the socialist movement, and social insurance is undoubtedly such a measure.

The uncertainty of the workingmen's life has probably a more deteriorating effect on the morale of their class than any other feature of their existence; it tends to make them timid and conservative and irresponsible to the movement for the elevation of their class on a broad and bold plane. The effect of a comprehensive system of state insurance is to remove from the minds of the workers the haunting dread born of uncertainty, and to develop in them a sense of material security and intellectual independence.

The socialists, moreover, regard the system of compulsory state insurance as a large step in the direction of the social transformation of the modern individualistic state. Edouard Vaillant predicts:

In a socialist society, social insurance will in its turn disappear in the higher forms of the social institutions based on equality and solidarity, as they are today absorbing and transforming the old institutions of public assistance and the partial and incomplete experiments of private insurance. Charity, public assistance and social insurance are the three successive stages through which we have to pass before the emancipation of the working class and the social republic will render them useless.

In the United States the socialist party was the first political party to adopt in its political platform a plank for social insurance.

NEGATIVE DISCUSSION

FALLACIES OF COMPULSORY SOCIAL INSURANCE¹

Compulsory social insurance includes state provided sickness insurance, state provided invalidity insurance, state provided unemployment insurance, state provided maternity insurance, state provided old age insurance, and state provided death insurance. Surely an ambitious program, beginning before the cradle, and not ending even at the grave.

Thus far we have been seriously asked to consider state sickness insurance only. Once on the road, however, we must go the whole way. Therein lies the warning I would give. Let us not err, either through hurried consideration, or precipitate adoption. Free and individualistic America should be shown before it is shorn. Socialism has no right place in our governmental system.

Compulsory social insurance advocates usually start with the assertion that the modern state owes "social relief" to the citizen. They argue this way: Thieves seek to pick our pockets, hence policemen to protect us; the dirty and diseased endanger the health of those who are clean and healthy, hence health officers and sanitation; the insane and the defective are among us, hence asylums that they may be segregated. These are social obligations met by the state. We have thus established a precedent; therefore, since some of us are sick and cannot work while we are sick, and some of us cannot work at all, or cannot get work at times, or get too old to work, or die before our time, social obligations arise which make it incumbent on the state to protect us while we do not work, and provide for our children when we die.

The social reformer does not merely rest his case on theory. He argues from experience, also. Usually he points to Germany, and urges that, as Germany has had all these forms of relief at work for many years, we of free individualistic

¹ From address by Edson S. Lott, President, United States Casualty Company, New York, before the American Association for the Advancement of Science, Columbia University, December 28, 1916.

America can safely undertake the same experiments. Does he not overlook the fact that compulsory social insurance in Germany did not come from a social consciousness; but, rather, as a political expedient to make possible a continuance of the militaristic imperialism by which the individual German has long been oppressed? Compulsory social insurance was simply Bismarck's sop to socialism; through it the growing social democracy of Germany was held in bondage.

Do our conditions in America require such a sop? Are we yet ready even to begin to abandon our individualistic system?

We have a nation of states, each, thus far at least, independent of each other in this matter of compulsory social relief. General compulsory social insurance, short of a political revolution that would practically wipe out state lines, can come only from the states. It is to the states that compulsory health insurance enthusiasts are now appealing, and must continue to appeal. That compulsory social insurance, once inaugurated, will cost vast sums needs no argument. Will New York obligate itself to such expenditure, if Pennsylvania does not; shall Texas stand aloof, while California assumes the burden? In short, if the nation be spotted by obstinate states, what about the disadvantage to the citizen in compulsory social insurance states in competition with the states that go on doing business without it? Here is no Germany or Russia or Norway, or even England. This particular social reformer, then, must begin his reforming by seeking to change our political system. Otherwise, his argument from European experience falls to the ground.

Let us carry this idea a little further. Isn't the compulsory social insurance advocate's first fallacy his refusal to admit that this country recognizes and encourages the independence of the individual in every relation of life, in direct opposition to the paternalism of Germany, whose law he would borrow for our use? What really has led to the success of the German plan, such as it has been? One answer is, the compulsory service of the citizen in the so-called funds or associations which administer the German law. Men and women are literally drafted to serve; more correctly speaking, they are handcuffed to the service until their time is up. The German is accustomed to obey.

Are we Americans so trained or environed that either the lash of public command or the spur of private conscience would bring to the service of our sick funds, our invalidity associations,

or our old age committees, the detailed daily grinding service that would make them go? I think not. A century and more of highly developed individualism—the freedom of which we boast—makes success of administration decidedly unlikely through organizations in the detail work of which all employers and employees must participate.

Another fallacy in this argument from the European experience appears in our American concept of property rights. In America, by settled doctrine based upon our constitutions, the individual may use his property as he chooses—provided he does not use it to injure others—subject only to the right of the state to take parts of it by taxation for public purposes. Now, is it not self-evident that, if the state should prescribe to an individual how much of his income he shall expend for a certain kind of insurance, it would deprive him of the free use of that part of his property—and not for a legitimate public purpose, but nominally for his own welfare? If the state can do that for any kind of insurance, it can do it also for all kinds of insurance. More, if the state can do that as to one's insurance, it, like an all-wise guardian, can do it also as to all his expenditure for food, clothing, housing and the like—in short, it can prescribe how he shall expend his entire income. Once the barrier of principle is down, there remains no limit upon the right of the state to take from the individual the free use of his own property.

Compulsory contributions through taxation to even *bona fide* plans of social insurance are dangerous. If the taxpayers are to contribute to other people's insurance, where draw the line? Poor relief confers charity and should be proportionate to pressing needs; whereas insurance confers *rights* based upon losses regardless of needs. And, once establish the *right* of some classes to indemnity for their ordinary losses out of the property of other classes, what becomes of the right of such other classes to the possession and enjoyment of their property? In a word, is not this another case of "what's the constitution between friends?"

Another fallacy of these interesting propagandists is that compulsion is a practicable method of accomplishing the purpose of self-providence. I believe that every person earning or enjoying an income ought to make the best provision he can through savings and insurance to safeguard himself and his dependents against the common misfortunes of sickness, invalidity,

unemployment, old age and premature death. I believe that the state should be active—even at considerable expense to the tax-payers—to foster all general means for providence and insurance and to make them safe and sound by supervision and regulation. But I do not believe that the state ought to *compel* such people—and certainly it cannot compel those without income—to insure themselves against any of the misfortunes enumerated.

To support my proposition I appeal to Prussian authority, not because I accept Prussian doctrines but because they represent the extreme of opinion in favor of state providence as against individualism. Vice Chancellor von Posadowsky, for many years the official spokesman for German social insurance and a conspicuous champion of compulsion, speaking in the Reichstag, said:

I believe . . . there can be an excess in the application of the obligatory insurance which will be harmful to our people. To push this principle to the extent of seeking to assure the future of everybody would tend entirely to paralyze individual providence and the ability to take care of oneself. Nothing could exercise a more harmful influence upon the character of the people.

There we have it explicitly that, even in Prussian opinion, compulsory insurance is a dangerous remedy for social ills. Have we Americans so much less faith in the individual and so much more faith in a benevolently despotic state than have the Germans as to believe that this remedy can be applied universally to our people without net harm? Can the state prescribe for the individual how he shall provide for his needs and risks in proportion to his means, better than such individual can learn by experience to provide for himself?

There are those who admit that compulsory social insurance administered directly by the state would be disastrous, but who contend that our private, competitive insurance is extravagant and that there would be a great saving in creating a complete new system of public insurance carriers, such as the German or the British, under state direction and control.

We are told by them, for example, that the administration of "industrial insurance" in this country costs from 40 per cent to 50 per cent of the premiums, as against 6 per cent and 7 per cent in connection with the "health insurance" of Great Britain and

the "sickness insurance" of Germany. These comparisons are cunningly misleading.

The following quotation from the eminent German authority Dr. Manes puts us on the trail of the truth. Dr. Manes says:

The opinion is nowadays commonly heard expressed that private insurance invariably conducts its business more expensively than social insurance. This, however, is true only in a relative way; for just as there are individual private insurance enterprises whose administration costs are higher than those of many publicly organized institutions, so also is it possible to adduce statistical data to demonstrate opposite conditions. It is almost without exception forgotten . . . to take into account the *high concealed costs* of social insurance. Those only are looked upon as administration expenses which appear in the budgets of the insurance organizations and not at all those large sums which, as a result of social insurance, either burden the financial operations and accounts of other state departments or, by reason of the relief given from postal charges and other dues and like privileges, represent a loss of receipts to those departments.

Therefore, while private insurance in this country assists in the payment of the general expenses of the state (through the taxes imposed upon it by the state), which helps to swell the overhead charges of private insurance, public insurance (or social insurance, as Dr. Manes calls it) would not only go untaxed but would enjoy the free cooperation of numerous state offices and officials, the cost of which to the state would be concealed. That, however, would be only a part of the concealed overhead cost. Under compulsory health insurance the contributions (premiums) of the workmen must be collected and accounted for at the expense of the employers; and in Germany the employers must serve, without pay, in the general administration of the entire system, even when such service interferes with their private business. In computing the so-called cost of administration, no credit is given for the time and expenditures of the employers. In private insurance every item of cost (to the very last penny) is blazoned forth in public documents, while in public insurance we are informed only of a small part of the general expense—that part charged directly against the cost of handling the fund. Hence the hypocrisy of constantly drumming into our ears the cost of agents' commissions in this country, without explaining who pays this expense abroad.

Now, listen to what is said by Sidney Webb relating to the method of collecting contributions for the British compulsory health insurance plan:

Regarded as a means of raising revenue, compulsory insurance of all the wage-earning population—with its elaborate paraphernalia of weekly deductions, its array of cards and stamps, its gigantic membership catalogue, its inevitable machinery of identification and protection against fraud, involving not only a vast and perpetual trouble for each employer but also the appointment of an extraordinarily expensive civil service staff—is, compared with all other taxes, almost ludicrously expensive to all concerned.

And Mr. Webb goes on to estimate the aggregate cost of collection at probably between 20 per cent and 25 per cent of the premiums received.

So, you see, the total overhead cost of compulsory social insurance is not 6 per cent or 7 per cent, as represented, but 6 per cent or 7 per cent plus x per cent plus 20 per cent or 25 per cent—and I am informed that the value of " x " may be anywhere from 5 per cent to 10 per cent—making a total somewhere indefinitely between 32 per cent and 42 per cent—not greatly different from the much criticized cost of private insurance with us.

Another phase of this fallacy of judging the economy of public insurance by the nominal cost of administration is illustrated by the experience of the Washington state compensation insurance fund. For that fund an expense ratio of about 10 per cent is claimed. But is the insurance therefore economical? Hardly; for the simple reason that the administration, as has been shown by a recent examination and audit, has been hopelessly defective and bad. Some of the moneys in the fund have been lost by defalcation; false or exaggerated claims have been carelessly admitted; there have been exasperating delays in paying the benefits; the accounts have been hopelessly jumbled, with the result that premiums and assessments have been inequitably distributed, and as already noted, the reserves are insufficient to carry admitted claims to maturity. It is plain that such so-called insurance, even were it administered without any cost, would be incomparably less economical than sound insurance at equitably apportioned rates administered at 35 per cent of premiums or even at a higher rate.

TRADE UNIONS AND SOCIAL INSURANCE¹

The history of the movements of wage-earners in all ages reveals the machinations of their opponents to disintegrate and destroy their associations. It has not infrequently been accomplished by employing the lawmaking power, and even in our own time the legislative, judicial and executive branches of our federal government, as well as that of the states, have been made the instruments of oppression under the guise of benefiting the workers.

With these facts before us we organized wage-earners cautiously scrutinize every movement launched by outside agencies whose claimants profess devotion to the common weal. Before the American Federation of Labor gives its approval to any plan contemplating the establishment by law of any form of social insurance it must first be assured that the economic freedom of the workers is guaranteed, and that the participation in benefits to be derived from any system of this character is not based upon continuous employment in a certain industry or predicated upon time of service or other devices intended to tie the workers to their jobs.

Organization among the men and women of labor has been the exclusive cause of their achievements. Group concert of action has been the means of compelling society to listen to the wrongs committed against labor by the controllers of industry. Organization, advancing with the passage of each decade, has been the instrument through which at least a partial recognition of the justice of the claims of wage-earners has been secured.

Like every movement based upon immutable fundamental principles, the organized labor movement has attracted the attention of other groups of society which assume that in them and their schemes lie the only solution for the problems concerning the lives of the working people. These groups as a general rule are but little interested in the struggles or perpetuity of the economic organizations of the working people, and only on rare occasions, if at all, appear as their sponsors

¹ From article by Grant Hamilton. *American Federationist*. 24 : 122-5. February, 1917.

or extend assistance in the maintenance or advancement of their organizations.

Let me now draw your attention to the fact that there are many industrial combinations in our country that have and are inaugurating social welfare schemes. Many of them contemplate social insurance of infinite variety. Among them are sickness, accident, superannuation and pensions. All these schemes, however, are primarily based upon length of service and economic loyalty to the concern formulating the schemes. The power to extend or withdraw benefits resides wholly in the hands of the controllers of the industry. Freedom of action by the workers is thereby made a negligible factor. In plain English, the workers under this scheme are chained to their jobs.

It is likewise true that in all the combinations referred to the right of economic organization has been and is denied. In other words, a benevolent feudalism is the translation of the ordinary welfare scheme. In nearly all the plans promulgated for social insurance compulsion appears as the one chief characteristic. Compulsion to do an infinite variety of things on the part of the workers is indicative of control over their lives. Without the safeguard of economic organization, untrammeled and in full influence, the governmental agencies created to establish a system of social insurance would soon destroy the trade unions and transmute the wage-earners into industrial pawns on the governmental chess board.

Workmen's compensation laws now in operation in many states are presenting many intricate problems. While it is not denied that they are conferring upon the wage-earners relief to which they are justly entitled, yet there are questions now arising under their administration that require our utmost vigilance in protecting wage-earners. Simultaneously with the advent of compensation laws came the introduction of systems of physical examinations. Industrial controllers, in their desire to reduce liability, are insisting upon ever increasing rigidity in physical examinations and excluding from employment those who show even non-essential defects. It is well known that able bodied, skilled workmen have been dismissed from employment at the recommendation of the company physicians who found in them the disease of unionism and diagnosed the cases under convenient professional terms.

Any further systems evolved having for their purpose intended benefits to the great mass must contain adequate safeguards to protect the wage-earners from industrial, law or welfare exploitation. The American Federation of Labor stands committed to the welfare of the wage-earning population of our country, but it will refuse now as it has done in the past to endorse or lend its assistance to any scheme, no matter by whom proposed, unless it is first convinced that the same measure of freedom of action as now enjoyed in the trade unions are secured to the workers under any insurance scheme proposed.

The purpose of social health insurance is to provide for emergencies and to prevent suffering of wage-earners and those dependent upon them. Well-to-do citizens do not make special provisions for such eventualities because they have a surplus upon which to draw. But wage-earners have no such surplus. Benevolent society has been moved to compassion for the suffering of the poor and their children—they offer a new form of charity, benevolent supervision and compulsory social insurance. Benevolent society does not go to bed-rock questions—why the meager wages, starved lives and the restricted opportunities of those who toil with their hands. It offers palliatives, not remedies. This new form of charity provides for the division of society into classes based upon wages received. Those who receive less than a specified sum, automatically come under government supervision upon the theory that they are unable to care for themselves and their dependents properly. Therefore, the state and their employers set aside money for their upkeep in times of emergency. The workers themselves make but meager contributions. Thus the fundamental principle of social insurance is to make permanent distinctions between social groups and to emphasize that distinction by governmental regulation. What wage-earners want is not benevolently administered saving of pennies but opportunity to do the world's work like free men and women and to receive honest returns for their labor in the form of adequate wages. Get off the backs of the workers and there will be no need for "insurance," for then wage-earners like employers will have enough to live on and to provide for emergencies without "aid."

Sympathetic advocates of health insurance justify the plan

by indicating the members injured, incapacitated, and exhausted by modern production. Organized labor has also called attention to the number of debilitated and physically deteriorated men and women thrown aside as useless by industrial managements, and has demanded the eradication of the inhuman speeding up devices that have marked many human lives. Driving workers at high tension, over-fatigue, unsanitary conditions of work are fundamental in ruining the health of the workers. If the speeding-up sentiment pervading industrial managements is continued the physically fit must soon be transferred to the unfit class, thus we are confronted with a constantly increasing number of industrial defectives. This question alone is serious and must be solved first. Without the removal of the causes for sickness health insurance is not even a safeguard, for the burdens upon society would become steadily heavier until too great to be borne.

FROM THE WORKINGMAN'S STANDPOINT¹

Roughly, and for the purpose of considering this insurance problem, our working classes may be divided into three groups. First, there is the friendly and trade society class, fairly well provided for. These men are usually members of two societies, or some kind of a club besides a bona fide society. They may be said to be entitled to double sick pay, they have been entitled to a doctor, and, when needed, special hospital treatment.

Second, there is the club class, somewhat poorly provided for —men not in first-class societies, but just in a club or dividing society, the general unskilled labouring class. These are merely entitled to a single sick pay and hospital treatment, and are occasionally assisted by collections among workmates or neighbours.

Third, there is the casual class, in no society or club, not sufficiently respected, as a rule, to get credit from doctors or collections from mates or neighbours. These are usually dependent upon charity or Poor Relief. They are generally found in the workhouse hospitals when sick. Such, briefly, are the

¹ By T. Good. *World's Work* (English edition). 21 : 514-16. April, 1913.

conditions apart from the Insurance Act. Such was the position before we got this measure. Now let us proceed.

There is the question of pauperism. We have been promised that this new scheme will diminish pauperism, its cost, and its degradation. There is no foundation for such a promise. The bulk of our paupers come from the third class, specified above—the poorest of the poor. It is just this class for which the scheme provides no real assistance, but actually does a great deal to make them still poorer, more helpless, and more dependent upon Poor Relief.

Even in this time of good trade many widows and casual labourers are losing their jobs, not merely because their employers are taxed a few coppers a week, but because of the little troubles, inconveniences, and inquiries involved, and because the scheme is so repugnant to some people that they are resolved to have nothing to do with it if they can escape, and are having their work done otherwise than by direct labour.

Here is a case in my village. Husband a cripple, but able to do light jobs in gardens and greenhouses, and so (hitherto) earn a few shillings now and again. Wife goes out charing. Children go errands.

With a trifle as out-relief from the Guardians, and the produce of a small allotment, the family has managed to live. Now, as a direct result of the Insurance Act, most of the employment has been lost. At least some members of the family will have to enter the workhouse, for the present fierce struggle cannot be kept up much longer.

Here is another case. A woman left a widow, with four boys all serving apprenticeships in the shipbuilding line. By going out to work about five days a week the woman so managed to supplement the meagre wages of the boys as to maintain her respectability.

Under the Insurance Act all the boys are taxed under both parts—unemployment as well as sickness—that is, eight sets of contributions weekly, although the boys, being bound, have no need of unemployment benefit at any rate. That constitutes a preposterous tax on that family income. Besides that, the woman lost some of her work, was reduced to terrible straits, and has since lost→well, her dignity.

Now consider the next class—the fairly well employed, but

unskilled and poorly paid workers. It was recognised seven years ago—seven last January, to be precise—that at least “a third of our workers were unable, out of their earnings, to get enough food to keep themselves in proper physical efficiency,” to put it in the words of a high and much quoted authority. Another authority said England was “not a decent place” for poor people to live in. Another declared we had a “wholesale right of poverty that wrung the heart and parched the throat.”

On top of this we have got a tax on wages, yes, even as much as a shilling a week on some poor labourers. Tens of thousands are purchasing 7d. stamps for their cards on the mere off-chance of getting a job on the docks and similar places, for if their cards are not stamped they stand no chance.

No, not even of a job clearing snow off the streets. Within a few miles of my house—in Sheffield to be exact—on the occasion of the last great snowstorm, poor half-fed fellows waited at the corporation depot from midnight until four o’clock in the morning and then were refused on this very account.

In the shipbuilding and housebuilding trades, which come under the unemployment as well as the sickness part of the scheme, poor casual labourers are having to pay both sets of contributions, including the supposed employers’ shares—total, 1s. a week. Even the poor charwoman’s half-crown is taxed 10 per cent, and sometimes 20 per cent.

This means still more hardship, more privation, more ill-health, more pauperism. The contention that people will be kept out of the workhouses by this scheme, as it stands, will not bear scrutiny. Let us dip a little deeper.

The better-off workers, the first class mentioned above, who are in really sound societies, and who are able to pay for something more than the unguaranteed and doubtful benefits of the state scheme; may manage to keep off the poor rates when sick or disabled. But this is precisely the class that has kept off without the scheme. They have insured and doubly insured themselves in a net-work of societies and clubs, democratically controlled, economically managed, and in which they have taken pride and pleasure.

The poorest, who have hitherto gone into the workhouse hospitals when sick, will still have to go to those institutions, for the new scheme gives them nothing that can be called insurance without an abuse of the English language. Had the funds been

pooled in one truly national scheme, with simple and economical administration, solid benefits—real insurance—could have been given.

Again, had the contributions been based on a fair taxation principle—payment according to ability—say a half penny for every half a crown of wages, there would have been far less hardship. As it is, the contributions are a cruel burden upon the poorest, and in return there is no real insurance.

I have been accused of writing bitterly of this scheme. But how can I—I who know the horrors and tragedies of poverty—write sweetly of this scheme designed by well-fed lawyers, labelled “social reform,” and palmed off as “9d. for 4d”?

Many of those who have managed to get into approved societies are unable—or will be unable—to pay for benefits additional to those of the state section, which are not guaranteed, and they will be little better off in the long run than the post-office contributors. The scheme is carefully designed to group the strong and fortunate with the strong and fortunate, and the weak and unfortunate with the weak and unfortunate.

There is no real mutual help in it. There is nothing truly national in it. There is no real insurance in it. Those who have escaped pauperism by their own voluntary thrift, and who desired to be left alone, are now half pauperised, while those who have been pauperised through misfortune are not rescued from pauperism by the new scheme.

Large numbers of our workers who have been insured against death, at least to the extent of covering the funeral costs, will now be unable to continue the premiums, taxed as they are by the compulsory scheme. The result will be that many more in the future than in the past will have to be buried by the Guardians.

One of the worst effects of the act is that it is destroying existing sickness relief agencies. Cheaply managed clubs are dissolving by the hundred, and our people are being left to the mercy of a scheme so costly that the promised benefits cannot be given after the money accumulated in the probationary period is exhausted. Just let me quote an illustration.

Tom Smith is a labouring man in a big works. *Without* the Insurance Act his position was this: He paid 3d. a week to the works club, 5d. a week to an outside sick and dividing society, 3d. a week to an insurance company, and 1d. a week to the local

hospital. The management of the works club cost nothing, and the employers made a generous contribution every year.

The funds allowed for a regular Christmas "share-out," besides sick pay and funerals grants. The outside club was managed for a mere trifle, and its funds also allowed a yearly "share-out" besides the benefits. In return for his contributions of 1s. a week, Tom Smith got these benefits—a couple of Christmas "share-outs," together amounting to more than the wages lost by the holidays; in case of sickness, £1 a week—10s. from the works club and 10s. from the other one—payment beginning with the first day; absolutely free hospital treatment for all his family as well as himself if needed; in case of the death of his wife, £10—£5 from the works club and the same from the other; in case of his own death, his widow would get £27—£12 from the insurance company, £10 from the works club, and £5 from the dividing one.

With the Insurance Act Tom's position is this: He pays 10½d. a week instead of 1s. just now—that is, 4d. to the state scheme in respect of sickness, and 2½d. for unemployment; 3d. to the insurance company; and 1d. to the hospital. The two clubs have *ceased to exist*. Now what are the benefits?

If Tom is off two weeks sick, and is lucky enough to get the full promised benefits, he will draw 10s. 6d. instead of £2. He is over fifty, and so is only entitled to 7s. a week, with nothing for the first half week. Instead of specialist treatment at the hospital as a matter of course, he has to go to a "panel" doctor—possibly an over-worked and inefficient one.

If his wife dies he gets nothing. If he dies his widow gets £12 instead of £27. This does not exhaust the list of losses, but enough has been mentioned to show that Tom is a loser by the 9d. for 4d. scheme.

As for the unemployment benefit a mere 7s. for *two weeks* if he gets it—this is simply an instrument of oppression in the hands of Tom's employers, for the benefit is not payable if he is reported for "misconduct," or leaves his work without "just cause." But this brings us to the industrial and social "ticket-of-leave" system, which is the most objectionable feature of the whole scheme, but cannot be discussed here. Suffice it to say that this will be keenly resented when it comes to be thoroughly experienced, and will do more than anything else to drive the best of our men out of the country.

EFFECT OF THE WAR UPON THE DEVELOPMENT OF SOCIAL INSURANCE IN THIS COUNTRY¹

To sum up, we can safely say that the financial and economic condition of the wage-earner has improved steadily in the past few years. Wages have increased and in spite of the great rise in the cost of living, the result has been a condition approaching prosperity for the working classes. Hours of labor have been shortened, working conditions have been improved and there is practically no labor surplus. Thrift has been encouraged and developed. Finally, prohibition has begun to have its effect in helping to lift the wage-earner to a higher economic status.

It would appear that this change in the wage-earner's condition has had two important effects upon the development of the social insurance movement in this country. First, it has lessened the need for the *compulsory* form of social insurance and, second, it has greatly developed *voluntary* methods of providing the protection. With regard to the first effect, the fact must be admitted that changed conditions have greatly lessened the number of people in this country who require assistance in this form. There are, it is true, certain classes of workers whose earnings have not increased sufficiently to meet increased living costs—as, for instance, teachers, some salaried workers and certain small divisions of the wage-earning class. There is also a small class of individuals who are still in the condition of poverty or near-poverty. It must be, however, that the last mentioned either are not able to earn or have no wage-earner upon whom they can depend. Considering the wage-earning or small salary classes as a whole, however, the statement can safely be made that the part who are in need of compulsory social insurance benefits at this time is comparatively small.

Unemployment insurance, disregarding the needs of striking workmen, is almost unnecessary at this time. The necessity for old age help is lightened to some extent by the employment at good wages of many more old age workers. If one should read any one of half a dozen volumes upon the subject of social insurance, I am certain that he would agree that the class

¹ From article by B. D. Flynn, President, Casualty Actuarial and Statistical Society of America. *Casualty Actuarial and Statistical Society of America. Proceedings*, 6, pt. 2 : 169-76. May 28, 1920.

for which social insurance benefits of a compulsory character are urged does not contemplate one whose economic and financial condition is that of the wage-earner today. Those for whom social insurance benefits are urged by these writers now exist only in a comparatively small class whose condition would more nearly need charity or other voluntary assistance. If we accept Dr. Rubinow's designation of those who should be the beneficiaries of compulsory social insurance as the working class which cannot afford commercial insurance, we must admit that there are comparatively few at the present time in this division.

The second, and perhaps most interesting, effect of the changed conditions is shown in the great increase in the effectiveness and diversity of the methods by which the worker can obtain protection by voluntary means. The workman has had the money to pay for his insurance and the employer, who has likewise enjoyed prosperity during these years, has been willing to help or in many cases completely finance the cost. The influenza pandemic and other developments have shown to the worker the great necessity for protection in event of sickness or death. Industrial insurance companies—both life and accident—report enormous increases in the amount of insurance issued to industrial workers. A large volume of ordinary insurance has been sold also to workmen who prior to a few years ago purchased industrial insurance. Employees mutual benefit associations conducted in connection with industrial establishments have been reorganized and membership greatly increased. Moreover, many new beneficial associations of this character have been started.

There is a further most interesting and significant development during the past few years of the voluntary means of providing social insurance benefits—namely, group insurance. This form of protection as related to life insurance is ordinarily paid for entirely by the employer and provides protection for the dependents of his employees. The general prosperity of the employer has given him the means and his desire to better his relations with his employee has given him the inclination to provide this protection. Group insurance, which did not gain much headway before 1915, has grown at a rapid rate, practically doubling in volume during the year 1919. At the end of that year the total volume of insurance in force amounted to \$1,084,515,433, insuring approximately 1,350,000 employees. Production is going ahead in 1920 even faster than during 1919. At the rate at which the idea is being adopted by employers through-

out the country, it is not unreasonable to suppose that within two years, if general industrial conditions do not change greatly, five million employees will be provided protection by this means. Considering the comparatively short period of its growth, the results in group life insurance are impressive. They mark an important and possibly significant development of the voluntary means of providing one form of social insurance benefit.

Group accident and health insurance, although it has been developed to its present form only within the past year, is already growing rapidly. This form of protection is ordinarily paid for partly by the employer and partly by the employee. By means of it the employee receives indemnity in case of sickness or accidental injuries which are not provided for under the compensation act. With workmen's compensation and group accident and health insurance, the worker is protected against loss of time due to either accident or sickness of any kind. It is believed by underwriters that in this form of protection a practical plan for providing accident and health benefits suited to the workman's needs has been obtained. Probably not more than two hundred thousand employees are protected at the present time, but as the education of the employer and the employee to the advantages of blanket insurance of this kind progresses, it is clear that it will take an important place as one of the means for obtaining voluntarily social insurance benefits.

There has not been a great increase in the number of industrial corporations which have installed old age pension plans, as one might expect offhand, as an accompaniment of the general prosperity of the employer in recent years. This may be due in part to the fact that the older men prefer to continue to work at good wages rather than to retire. There have been new plans installed, however, particularly in the case of large corporations, so that some progress has been made in this branch of social insurance.

The foregoing remarks are intended simply as a review of the effects upon the development of social insurance of the changed conditions of the wage-earning class since the commencement of the war. It is not claimed that present conditions are an index of a permanent condition. It has been shown, I believe, that the need for compulsory social insurance has been lessened and the voluntary means has been greatly developed in the past few years. Whether or not conditions will continue so that the foundation for the solution of the social insurance

problem in this country by voluntary means will be laid, is an interesting question. It is the personal opinion of the writer that the development of the voluntary means of providing insurance for the workman resulting from the changed conditions of the past few years will have a permanent effect upon the social insurance movement in this country and will postpone the day when social insurance of a compulsory character will be considered as necessary by the wage-earning class, the employer, or the public in general.

WORKMEN'S COMPENSATION GENERAL DISCUSSION

WORKMEN'S COMPENSATION LAWS—1921¹

Workmen's compensation laws, the first of which was enacted in 1911, are now in force in all but five of the United States and in all but one of the Canadian Provinces. The Federal and Dominion governments also provide such protection for their own civilian employees.

The tendency of this legislation is to cover all employments except farm labor and domestic service, but some laws still limit compensation to so-called "hazardous" employments.

Medical care is usually provided at the expense of the employer.

In twenty-nine states and eight provinces there is a "waiting period" of seven days or less immediately following the injury, during which no compensation is paid. Thereafter under the Maine, Manitoba, Maryland, Massachusetts, Minnesota, Missouri, Nebraska, New Jersey, New York, North Dakota, Ohio and Ontario laws, as well as under the Federal law, compensation for disability is 66½ per cent of wages. In Arizona, California, Illinois (sliding scale), Kentucky and Wisconsin compensation is fixed at 65 per cent; while in Alabama (sliding scale), Hawaii, Idaho (sliding scale), Iowa, Kansas, Louisiana, Maine, Michigan, Nevada, Pennsylvania, Texas and Utah it is 60 per cent. Elsewhere it is still as low as 55 per cent.

Under the Federal law, in death cases, the widow receives 35 per cent of her deceased husband's wages, with 10 per cent in addition for each child, the total never to exceed 66½ per cent. With variations a number of other states follow this general plan.

Most laws allow, in addition, about \$100 for burial.

In all states and provinces, except Alabama, Alaska, Kansas, Quebec, Saskatchewan and Yukon, payment of compensation is made certain by requiring employers to insure their risk, and

¹ From American Association for Labor Legislation, New York. Revised to May, 1921.

eighteen states and six provinces have established state funds to provide insurance at cost.

To administer workmen's compensation acts, industrial accident boards have been established in all states and provinces except Alabama, Alaska, Kansas, Louisiana, New Hampshire, New Mexico, Rhode Island, Tennessee, Wyoming, Quebec, Saskatchewan and Yukon.

Congress recently provided for federal-state cooperation in the work of rehabilitating injured workmen. Nearly half of the states have already taken advantage of this provision for vocational rehabilitation.

Measures to extend the benefits of federal workmen's compensation legislation to seamen and state workmen's compensation laws to longshoremen are now pending in Congress.

AIMS AND METHODS IN SOCIAL INSURANCE¹

Under the old common law of England as applied in this country, every individual was supposed to be responsible for the results of his own actions. In the case of an industrial accident the courts, accordingly, tried to find out who was responsible. But the position of the employee before the court was weakened by reason of the fact that certain defences were developed on the side of the employer, which gave the latter an unequal advantage. The employee was supposed to have assumed the ordinary risks of the trade. If the accident resulted from the negligence of a fellow-employee, the injured party had no recourse against the employer. His only recourse in such a case would be against the fellow-employee. If the employee in any way contributed to the accident by his neglect he had very little hope of obtaining compensation, though the employer might have been equally negligent. It is evident that the application of such legal doctrine must have placed the workers at a very serious disadvantage under modern industrial conditions.

They could not expect to command the same legal talent as the employer in the legal battle which generally followed a claim for compensation. The case was generally before the court for a long time before a final decision was rendered. According to

¹ From article by John O'Grady, Ph.D. Catholic World. 105 : 763-74. September, 1917.

the insurance year book for 1911 there were thirteen thousand and forty-three suits outstanding against fourteen liability insurance companies, December 1, 1910. Of these nearly three thousand had been in court before 1908 and more than five thousand before 1909. In the meantime the worker or his family were, in many instances, depending upon public charity. If the case was finally decided in favor of the injured party, a large part of the money received went to pay lawyers' fees. According to the New York Employers' Liability Commission the lawyers received 26.3 per cent of the total amount awarded to injured employees. The modern compensation law does not take into account the negligence of the employee, except in so far as it is gross and willful. Neither does it take into account the negligence of the employer. It is based almost entirely on the theory that accidents are incidental to the modern industrial process, and that compensation for them should be as necessary a part of the cost of production as the wear and tear of machinery. Under the compensation system, it is not so much the character of the injury received by the worker, as his needs that determines the amount of the award. One rarely finds a modern compensation board granting a large sum to an injured worker. In all probability it would not be turned to the best account by the ordinary wage-earner. A serious effort has been made, under compensation legislation, to adjust the compensation scale to the needs of the worker. The amount of compensation, therefore, generally depends on the economic loss suffered by the injured party or his family, as a result of the accident. When the worker has been totally and permanently disabled, the best compensation laws allow him a pension equal to two-thirds of his wages for life. If he is partially disabled, the amount which he receives depends on his loss of earning power. If the worker is killed, the amount of compensation paid to his widow depends on the number of children which she has to maintain.

But the modern state is not satisfied with laying down the general principle that employers must defray the cost of industrial accidents. It also takes the necessary steps to see that they are capable of discharging their obligations in this regard by compelling them to insure. In two countries, namely Norway and Switzerland, the employer is obliged to insure in a state fund. In Germany and in Austria the employers in each

district form their own mutual insurance institutions, which are supervised and regulated by the state. In American states, with the exception of Ohio and Washington where insurance in the state fund is obligatory, employers are free to insure in a state fund, a private stock company, a mutual company or to carry their own risk. Insurance generally frees the employer from further responsibility in regard to industrial accidents. All the claims of injured employees against the establishment have henceforth to be met by the insurance companies.

Germany was the first modern country to adopt the principle of compensation for industrial accidents on a national scale. The German Emperor, in his now famous message to the legislature, in 1881, recommended the making of national provision for sickness, industrial accidents and invalidity. In 1883 Germany passed a compulsory sickness insurance law, and in 1884 a compulsory accident insurance law. Since that time all European states have followed the example of Germany in making national provision for industrial accidents. Austria was the first to follow the example of her neighbor, passing a compulsory accident insurance law in 1887. Ten years later Great Britain passed a compulsory compensation law, leaving the matter of insurance to the discretion of the employer. In 1898 a similar law was passed by France.

The United States was the last of modern great nations to accept the compensation principle. Up to ten years ago very little was known in this country about the European compensation movement. Most people who gave the question any thought, believed that it would be a better policy to modify our liability laws than to pass workmen's compensation or industrial accident insurance laws.

New York in 1910 was the first American state to pass an effective workmen's compensation law; but a year later this law was declared unconstitutional by the Supreme Court of that state, on the ground that it constituted an unreasonable interference with the liberty and property rights of the individual. The decision of the New York court gave a great setback to the compensation movement in this country. The different states were anxious to pass compensation laws, but were prevented from doing so by the constitutional difficulty. It was evident that American courts would not compel employers to pay compensation for accidents which were not due to their

own neglect. An interesting compromise was adopted by New Jersey in 1911. Under the New Jersey law the employer is free to elect employers' liability or workmen's compensation; but if he elects employers' liability, he is not permitted to plead the defences of common law, that is, he cannot claim exemption from compensation on the ground that the accident was due to the negligence of a fellow-employee, that the injured employee assumed the ordinary risks of the trade or that the employee himself contributed to the accident by his own neglect. This compromise has already been adopted, with rather favorable results, in twenty-four American states.

With a view to forestalling the constitutional difficulties in the way of compulsory compensation legislation, a number of states have amended their constitutions. Amendments in favor of such legislation were adopted in 1912 in Ohio and in New York in 1913. As a result of the constitutional amendment New York passed a compulsory compensation law in 1913. The constitutionality of this law was again called into question as being at variance with the Fourteenth Amendment to the Federal Constitution. A short time ago the Supreme Court of the United States declared the New York law constitutional, its enactment having been justified in the interests of public health and welfare. This decision of the Supreme Court will remove most of the difficulties in the way of compulsory compensation legislation. The same day on which it handed down its decision in the New York case, the United States Supreme Court also upheld the constitutionality of the Washington compulsory insurance law which obliges all employers in certain industries in that state to insure their employees in a state fund. American legislatures, therefore, are not only free to enact compulsory compensation laws, but they may also compel employers to insure in a state fund.

From the foregoing brief outline of the compensation movement in the United States, it may be seen that, although this country was rather slow at first in taking up the compensation idea, the progress since 1911 has been very great. Within a short period of six years no less than thirty-five American states have passed compensation laws under some form.

But while the great majority of American states have accepted the compensation principle, we must not deceive ourselves into thinking that all the victims of industrial accidents

in this country receive compensation. Not more than 20 per cent of the reported industrial accidents are compensated in any American state, and the percentage of those receiving compensation is sometimes as low as 6 or 7. The elective character of most American compensation laws excludes large numbers. Many employers still prefer employers' liability to workmen's compensation. American states passing compulsory compensation laws have been compelled, on constitutional grounds, to limit their application to certain dangerous trades. Most of the laws exclude large classes of workers' such as those engaged in agriculture, domestic service and office work. Thousands of workers engaged in interstate commerce do not come under any compensation law whatever. We can, therefore, see that much still remains to be done before the American compensation laws approach perfection, before the principle of compensation for industrial accidents becomes effective, so far as American workers on the whole are concerned.

COMPENSATION AND BUSINESS ETHICS¹

The tendency to widen the scope of compensation and to standardize the laws to a scale of compensation that will protect the injured and his dependents from pauperism is largely due to the fact that business has found it surprisingly easy to adjust itself to the new conditions. Those who feared that so conservative an extension of public control would prove disastrous strangely under-estimated the resourcefulness of American business men. The industry that has gone into bankruptcy because of the weight of enforced compensation has still to be heard from, neither has any state suffered from the terrified flight of capital to states where such laws do not yet obtain. On the contrary, the persuasive pressure of the laws has stimulated new and universally welcome practices that have actually increased the prosperity of business wherever they have been adopted. The ablest and most resourceful of our business men have proved that just and certain compensation, like high wages, where these are accompanied by executive efficiency, not only provide the greatest incentive against malingering on the part of the workers, but pay large cash returns. And this

¹ From article by Robert W. Bruère. Harper's Magazine. 131 : 210-19. July, 1915.

demonstration that reasonable social demands justify themselves on economic grounds is profoundly modifying the ethical postulates upon which American business has heretofore been usually conducted.

An illustration in point may be found in the recently published records of the Wisconsin Industrial Commission which administers the compensation law of that state. The moment public opinion in Wisconsin decided that injuries to wage-workers must be charged in the cost of production, precisely like injuries to machines, employers were immediately stimulated to take every precaution against accidents. Individual employers retained safety engineers, and the Industrial Commission created a staff of experts in accident-prevention which was put at the service of all the employers of the state. The results have been such as would have been called utopian and impossible a few years ago. A steel company has made a reduction of 68 per cent in its accident record since 1910. A large stove manufacturing concern during the past two years has made a reduction of more than 65 per cent in the number of days for which compensation has had to be paid. A coke-and-gas company, whose industry has always been regarded as "extra hazardous," reduced the cost of compensation in 1914 under 1913 about 65 per cent. Out of two hundred and forty-five industries employing two hundred or more wage-workers each, two hundred and nineteen have so greatly reduced the time lost on account of accidents that the average during the year ending July 1, 1914, was less than one day per employee a year. This means less than 30c on \$100 of pay-roll for compensation and medical service. And the measures required to produce these amazing results are so simple that it seems unbelievable they should never have been adopted before compensation identified the economic with the ethical motive.

The manager of a foundry sent for one of the commission experts. He said that he had had to lay off thirty men in a single day because of burned feet; burned feet seemed to be the will of God with respect to the men who worked in that foundry, and it seemed unfair to him that the law should require him to pay damages. The expert suggested the purchase of a lot of foundrymen's shoes and their sale to the men at cost. After six months the records showed a reduction of 85 per cent in the burns suffered in that foundry.

What ecstatic preaching and profession of abstract brotherly

love had not been able to accomplish in thousands of years the compensation law accomplished in three years by allying the economic motive with socially advantageous aims. It is not that manufacturers were less well-intentioned before the law was enacted; only they had never before been spurred to inquire whether their own interests could be safely reconciled to the interest of their neighbors in this matter of accident prevention. In this particular field, at least, it has been proved that human conservation through the normal channels of enlightened business may do more to prevent poverty than all the charities in the world can do to remove poverty, once poverty has been allowed to become a fact.

And in its bearing upon the future development of business practice, an incident in this work of accident prevention is quite as rich in promise as the resourcefulness of the business men who have demonstrated that safety can be made to pay. Out of five years' experience in the industries which have made the largest reductions in accidents, says the supervising expert of the Wisconsin Commission, has come this striking fact, that not more than one-third of the reductions actually made have been accomplished or could have been accomplished by the use of mechanical safe-guards, while two-thirds of the reductions have been brought about through the organization, education, and active cooperation of the wage-earners themselves.

By far the most important feature of organized safety work [this expert writes] has been the workmen's inspecting committees. In each department three rank-and-file workmen are usually appointed to serve two or three months and are authorized and encouraged to make a thorough inspection of their department once a week, or at least once a month. In many plants they also investigate serious accidents.

I have made a careful investigation of a number of plants in which workmen's committees have been appointed, and in every case they have been successful. The experience of all factories with which I am familiar reveals the fact that from 90 to 95 per cent of the suggestions which these workmen's committees make are practical and are accepted by the company. The eight hundred workmen serving on the committees of the Chicago and Northwestern Railroad during the first three years of safety work reported more than six thousand points of danger, with suggestions for their removal. All but two hundred of these suggestions were found to be practical and were adopted by the officers of the company.

This demonstration of the executive and inventive ability

latent in the common rank and file of the workers, who have so long been thought to have nothing but their brute labor power to justify their existence, raises the question as to whether the extension of such cooperation in the administrative control of business might not open unsuspected reserves of initiative and leadership. Incidentally, it gives welcome confirmation to our faith in democracy.

One of the most spectacular outgrowths of the old legal system was the employers' liability insurance company. With the introduction of power machinery injuries multiplied and damage suits came to be a harassing menace to the free evolution of enterprise. It is an interesting fact that in the early days of machine production public opinion was much more deeply interested in the free development of the machine, with its promise of abundant and cheap goods, than it was in workmen whose injuries were commonly regarded as an inevitable sacrifice to the general prosperity. There was a disposition on the part of the public, as reflected in the verdicts of juries, to frown upon the injured man who brought suit for damages, much as it would have frowned upon a soldier who should claim damages from his captain on the ground that the captain was responsible for his wounds. And this attitude was in turn reflected in the decisions of the courts, which took vigorous and in some instances startlingly arbitrary steps to safeguard industry from the importunities of the industrially crippled.

As early as 1837 the courts had decreed that an employer was not to be held liable where an injury of a worker was attributable to the fault of another employee. This so-called fellow-servant rule was the first of three defenses which made recovery of damages, except in cases where the employer was grossly at fault, almost impossible. For in order that the menace to which industry was exposed should be reduced to a minimum the courts reinforced this fellow-servant defense by declaring that a workman who had knowingly assumed the risk of his employment—and to accept employment at all was evidence that he possessed such knowledge—had no legal ground for complaint; and, further, that he might not recover damages in cases where it could be shown that his own negligence had contributed to his injury.

With the increase of production, industrial injuries in this country began to number hundreds of thousands, and even millions, each year. Industrial cripples cumbered our hospitals, and

thousands of families were rendered destitute because the workers upon whom they were dependent had lost their earning power. The organized protest against the injustice of this situation, and against the legal system which aggravated its evils, was led by the railway workers, and originally took the form of an attack upon the employers' three defenses. In 1887 the railroad men of Massachusetts, with the support of a considerable body of far-sighted employers, carried through the legislature a law which made the employer liable for damages in cases where it could be proved that the injury had resulted either from the negligence of the employer himself or of his agent, the superintendent, or by reason of any defect "in the ways, works, or machinery connected with or used in the business of the employer." And this law specifically provided that in the case of railway-workers the fellow-servant rule was abrogated.

The enactment of this law, which, while not the first, was, up to 1887, the most effective of its kind, was a signal for similar action upon the part of the better organized groups of labor in all parts of the country. In view of the fact that it was now universally recognized that a large majority of all industrial injuries were suffered by workmen through no fault of their own, public opinion came in the course of time to sympathize with the injured workman, not only on his own account, but because of the increasing burden which uncompensated injuries were placing upon the taxpayers. In one state after another laws similar to that of Massachusetts were enacted, extending the grounds of recovery not only to railroad-workers, but to all industrial employees whatsoever. The changed temper of public opinion appeared in the fact that, whereas formerly an injured workman who sued for damages was likely to be regarded as an enemy of society, and dealt with accordingly by juries, the tables began with equal unfairness to be turned against the employers, and verdicts in the sum of five, ten, twenty, and even twenty-five thousands of dollars began to be awarded. And in some states—notably in Ohio—the later liability laws went so far as to provide "that the entire question as to the amount of damages was to be decided by the jury, the jury action being final in this respect." Deprived of the defenses, threatened with a limitation of their right to appeal from the decision of juries, all except the very wealthiest of employers found themselves perpetually confronted by the nightmare of a catastrophe beyond

human control which might plunge them with the injured and their families into utter ruin.

To protect themselves against this danger, the employers encouraged the organization of the Employers' Liability Insurance Companies which before 1887 were practically non-existent in the United States. The total premiums collected by all such companies in the United States amounted in 1887 to only \$203,132. But for the ten years from 1887 to 1896, inclusive, their total premiums had risen to \$21,000,000, or at the rate of something over \$2,000,000 a year; while during the ten years ending with 1906 these premiums had increased to the enormous total of \$110,183,588, or at the rate of \$11,018,358 a year. The new laws were putting an enormous burden upon industry, but the expenditure of these millions did nothing to check the evils that were a growing menace to the productive efficiency of business. Instead of approaching the situation in the spirit of justice and conciliation, the liability companies capitalized the predicament of the employers and used it not only to mulct the employers but to defeat the reasonable claims of the injured. Every case was fought to the limit of the law by an army of legal retainers, and all manner of trickery was resorted to in settling claims out of court. The total premium's reported by the fourteen leading employers' liability insurance companies for the ten-year period ending December 31, 1910, amounted to \$181,276,782; the total amount paid out on account of injuries, as reported by these companies themselves, was \$37,142,355. That is to say, only one-fifth of the money paid by employers on account of injuries to their workmen reached the injured; four-fifths went to solicitors, claim-agents, attorneys, managers, and stockholders.

As these facts became generally known, they released a flood of resentment which focused upon the insurance companies as the arch-villains of a system for whose evils they were no more responsible than any other section of the public. As a result, the moment the old employers' liability system gave way to compulsory compensation the companies had to fight for their very existence. The workers in whose eyes all the evils of the old system were hatefully embodied in the agents of the companies whose business it had been to defeat their claims, were everywhere determined upon the companies' destruction, and demanded the establishment of state monopolies of the compensation-insurance business. In Washington and Ohio such state

monopolies were actually created, and they have, on the whole, worked well. The employers were in many states only less hostile than the workers. The state monopolies of Washington and Ohio could not have been established without the assent of a large number of employers; and in Massachusetts, where the law provided for the creation of an employers' mutual insurance company, by which the whole business was to have been turned over to the employers themselves, it was only at the last moment, and by extremely energetic lobbying, that the companies succeeded in securing the inclusion of a clause that permitted them to remain in the field.

But in the majority of the states fear of a state monopoly in the present condition of our civil service outweighed hostility to the companies. It was generally recognized by the workers that for them the first conditions of a good compensation law were definite amounts of compensation and certainty of payment. The employers quickly saw that their first interests were to secure insurance at the lowest reasonable cost and effective machinery for the prevention of accidents. To accomplish these ends, most of the laws created some form of industrial commission with jurisdiction over disputed claims and with power to organize an accident-prevention service. From the workman's point of view the existence of such a commission, devoting its entire time to industrial questions and freed from the technical rules of the courts, is indispensable; but such a commission in itself gives the employers an insufficient guarantee that they will get either the best accident-prevention service or the lowest reasonable rates of insurance. Most of the laws, therefore, provide that an employer who can give adequate guarantee may carry his own insurance; or that employers may band together to form mutual insurance companies; or that they may insure with a state fund established for the purpose. In those states where state funds or employers' mutuals have been organized—and they are steadily growing in favor—they are being used by the employers as "regulators" of the liability insurance companies, now generally distinguished as "stock companies." In other words, the employers have virtually said to these companies: "The public in its own interest has interferred with our old freedom in the conduct of our business by compelling us to provide for compensation in all cases of industrial injury. We in turn are compelled to take steps to restrict your freedom. If

you can provide us with insurance as cheaply as the state or our own mutual organizations, we are ready to do business with you. If not, we shall create insurance companies of our own, or much as we are opposed to the idea of public ownership, we shall resort to state insurance."

The effect of this challenge upon the stock companies has been immediately to bring to the surface capacities for social service which had been supposed to be entirely foreign to their nature. "The fundamentally important fact," their leading spokesman has recently declared, "was that the law of employers' liability was a bad law. No agency can administer a law that is based on wrong social principles and get good effects. The situation today is entirely changed. Workmen's compensation is now dominant; the stock companies are no longer in opposition to public sentiment, and their aggressiveness now finds its place in developing the good effects of a good law instead of the bad effects of a bad law." For many years these companies had found it necessary to conduct their business along the lines of the worst type of cut-throat competition. Their policies were frequently placed at rates far below the level warranted by sound insurance principles on the apparent theory that they could recoup their losses in certain cases by overcharging in others and by defeating the claims of the injured all along the line. For a workman rarely had money to fight his claim through layer upon layer of courts; lawyers had to take such cases on "contingency fees"—that is, on a gambling chance of winning their suits and getting their pay out of the recovered damages, so that unless the injury was serious and of a nature to appeal to the emotional sympathy of the jury it was usually necessary for the injured to let his claim go by default or to take whatever pittance the companies' claim-agent offered to keep the case out of court. But when laws made the payment of fixed scales of compensation compulsory, this system, which had placed a premium on fraud and legal trickery, was destroyed at a stroke, and as a matter of sound business policy the companies began to direct their "aggressiveness toward developing the good effects of a good law instead of the bad effects of a bad law."

A group of the largest companies, representing more than a billion of capital, formed a cooperative alliance under the designation of the Workmen's Compensation Service Bureau. They

are naturally opposed to monopolies either in the form of state insurance or employers' mutuals. They maintain that the best social results will be secured where the law provides for fair competition among state funds and employers' mutuals and themselves, by which they mean that the states shall not subsidize the state funds or the funds of the employers' mutuals out of general taxation, but shall establish scientifically determined non-competitive insurance rates. Under such conditions, they assert, that organization would prove its right to do the business which was most aggressive and efficient in preventing accidents. For by non-competitive, scientifically determined rates, they do not mean inflexible rates, but rates that may be modified not only in the light of the accident experience of a given employer, but also with reference to the safeguards against accidents which the employer adopts. With "fair competition," state-controlled non-competitive rates, including a definite schedule of "individual-merit rating," the only remaining field for competition would be "competition in service"; the organization best equipped to help the employer in reducing accidents would, under these conditions, be able to furnish insurance at the lowest rates, and would naturally secure the business.

In recognition of this fact, the leading companies, through their Compensation Service Bureau, have actually done more than the state funds or the mutuals in discovering what the true scientific rates are, and they have created an accident-prevention service which, while not superior to the best state services like those of Wisconsin and Massachusetts, is doing more for the reduction of accidents in the country at large than any other body—almost as much, it is fair to say, as all other organizations, exclusive of a few very large corporations, put together. "Objection may be raised," says the manager of this Service Bureau, "that this is commercializing safety. Exactly! It is the height of genius to be able to produce ethical results on economic grounds—to make safety a paying proposition."

The only declared opposition to social insurance in principle comes from the groups that our industrial evolution has segregated at the opposite extremes of the economic scale—the violent conservatives and the violent revolutionists. The violent conservatives believe that all life is a fateful struggle between individuals, and that any attempt to interfere with this struggle through legislation is nothing more than a sentimental effort to

protect the unfit and thus to poison the blood of the fit in their heroic battle with nature. The violent revolutionists believe, too, that the law of life is war, but in their minds the struggle is not between individuals, but between groups, and they preach the predestined dominion of the working-class. Any attempt to avert the proletarian revolution by ameliorative legislation they scorn as an attempt to blunt the fighting edge of the workers and a subversion of the revolt through which alone the "wage-slaves" can break their chains.

Between these extremes stand the great heterogeneous masses of the people whose common thought is prevailing public opinion, equally opposed to the violence of the militant individualist and the militant revolutionist; instinctively holding all life sacred; perpetually pre-occupied with the healthy, just, and normal development of the whole nation; striving to curb the centrifugal militancy of the extremes and to lead all groups to subordinate their special interests to the common interests of all. Social insurance is a part of this effort. It is inspired by faith in the possibility of a peaceful approach to wisdom and justice in human affairs. It is an appeal from violence to constructive human intelligence—an attempt to substitute mutual aid for war.

AMERICAN EXPERIENCE WITH WORKMEN'S COMPENSATION¹

Experience under the American compensation statutes has justified in fair measure the hopes and claims of those who have advocated the legislation. It has not been millennial. But it has realized no small part of the advantages which were predicted. So much may be stated with entire confidence and after due allowance for the present incompleteness of definitely relevant data. In fact, a reasonably confident conclusion of that character might be reached without examining any of the detailed reports upon the practical working of the statutes and with only a knowledge of the rate at which the compensation system has been extended from state to state. Ten years ago the early and ready acceptance of workmen's compensation in

¹ From article by Willard C. Fisher, New York University. *American Economic Review*. 10:18-47. March, 1920.

other lands was urged as a strong argument for the enactment of compensation legislation in this country. It was pointed out that within a quarter century the newer principles and policy for the relief of employees injured in industry had been adopted in some forty foreign jurisdictions, including all of the industrially important ones, and that, once adopted, there nowhere had ever been any serious proposal to give them up.

But foreign readiness to enact compensation laws has been more than matched in the United States. It is not yet nine years since the first of the really effective American workmen's compensation statutes were enacted. Yet such laws now have been enacted in forty-two of the forty-eight states and in Alaska, Porto Rico, and Hawaii. Only the District of Columbia, North Carolina, South Carolina, Georgia, Florida, Mississippi, and Arkansas are still without compensation statutes. And a late appropriation for the District of Columbia brings all public employees in that jurisdiction under the provisions of the federal workmen's compensation law. It is not credible that the states would have taken action so speedily, one after another and in full knowledge of what had been done elsewhere, often in adjacent states, except upon conviction that the action taken was of proved wisdom. Doubtless none of the tardier legislatures knew every effect of the earlier enactments. Nobody knows as much as that, even now. But they did know, through universal report and belief, that of evil effects there had been as good as none and that general results had been eminently satisfactory. And upon such knowledge they acted.

There is other general evidence of the same presumptive character. As in foreign lands, so in America there has been never a voice raised for the repeal of the statutes. Rather the tendency of legislation everywhere has been to go farther, to strengthen and improve the first laws. The field of the acts has been broadened somewhat, by the inclusion of additional workmen. Rates of compensation have been increased in various ways, by higher percentile ratings upon wages, by raising the fixed maxima, by shortening the waiting periods, by extending the duration of the payments, by more liberal provisions for medical care, and in still other minor ways. The original limitation to accidental injuries has been done away in a few states. The certainty of payments to injured employees has been made greater, by stricter requirements of insurance and by corrections

of administrative procedure. And the simpler and more summary administration by boards or commissions, rather than through the courts of law, has been increasingly favored.

By many tokens employers have shown their approval of the system. There are, to be sure, some regrettable failures of the optional statutes to win acceptance by employers. But these are not very numerous, relatively. Much the larger numbers of the employers affected have accepted their new obligations cheerfully. In the states in which the employer's acceptance of the optional statute is presumed, in the absence of his notification to the contrary, positive rejections have been few. And in states with optional statutes there have been a great many purely voluntary elections of the compensation system by employers who have been under no constraint of fear that they might have to face suits at law without their old-time common law defenses. So in California in 1918 there had been more than twenty thousand such voluntary elections which had been formally notified to the Industrial Accident Commission, and in addition to these an unknown number of others which had been legally implied by the taking out of compensation insurance. And, in fact, a good part of the liberalizing amendments to which reference has been made have had the support of employers, or even have been proposed by them.

Employees have become even more cordial than employers in their approval. Unorganized laborers, of course, on the farms and elsewhere, never were on record, or even heard as to their wishes about workmen's compensation. But organized laborers, as a rule, were at first skeptical or positively hostile. It was but natural that the representatives and spokesmen of the labor unions, knowing little about the measures proposed for their avowed benefit, and by outsiders at that, should be doubtful of the real advantage to themselves. The verdicts for large sums now and then won in personal injury actions loomed in their minds as the grand prizes of the lottery loom in the minds of ticket-holders. And they did not appreciate fairly the fact that the compensation awards, limited although they might be, would come very much oftener than the rich damage verdicts. In 1909 Mr. Samuel Gompers, as president of the American Federation of Labor, declared his preference for an improved employers' liability law. Two years later the president of the Connecticut Federation of Labor appeared in his official capacity at a legis-

lative hearing to oppose a pending workmen's compensation bill, announcing that the organized laborers of Connecticut wished rather a simple abolition of the common law principle of the fellow-servant. In Illinois the opposition to early proposals of workmen's compensation had some of its sharpest, even bitterest, expressions by organized laborers. But now, after a few years of experience with compensation, laborers, both organized and unorganized, are generally enthusiastically in favor of it, not necessarily in its present typical form and with its commonest limitations but, certainly as a general principle and in contrast with employers' liability. Perhaps the great railway unions, to whose highly paid members the modest maxima of the ordinary compensation awards appear particularly unjust, are the only important bodies of laborers who cannot be considered as now having renounced their former hostility.

It is clear also that the doubts and fears and the opposition which were so widespread among the general public a few years ago have been dissolved. When the agitation for workmen's compensation was first gathering strength some ten years ago, and even after the earliest statutes had gone into effect, many among those who could not properly be regarded either as employers or as industrially employed, and who, therefore, were not directly affected, were decidedly skeptical about proposals to import such radical European measures, if, indeed, they did not range themselves definitely with the opposition. But now—what a change! It is not merely that employers, high and low, great and small, are old and ardent friends of workmen's compensation—at least such of them as declare themselves at all. So also are the insurance men. So also are nearly all audible workers. And among other classes of the general public it is scarcely possible now to find a well informed person who is not friendly. Truly it is a marvel that the struggle for compensation laws could have been so hard: there are so many long-time friends on every side. But, at any rate, there have been enough reversals of judgment to make present public opinion emphatically favorable to the new system. And this general and cordial approval of workmen's compensation is of greater practical importance than may appear at first. It has had and continues to have important bearing upon judicial decisions as to the validity and the practical meaning of the laws.

But much more to the point, under the American system of government, is the fact that the constitutionality and the

general legal propriety of workmen's compensation may be said to be now definitely established—established, that is, beyond any possibility of unsettling. For they have been affirmed abundantly in the highest courts, both state and federal. Early unfavorable decisions in Montana, New York, and Kentucky, and in lower courts elsewhere have been made quite negligible, by changes in the provisions upon which they turned, by constitutional amendments, and by the accumulated weight of later favorable opinions. Of these there have been a great many, perhaps fully half a hundred by now, which may be said to have covered questions of constitutionality, sustaining the statutes of more than a score of the states, some of them of the so-called optional type and some directly compulsory. It is true that the scope of some of the favorable judicial opinions is not quite so comprehensive as at times is assumed and that, therefore, their weight is not quite so overwhelming as the list of states might indicate. But none the less it is now entirely safe to conclude that no attack upon any essential feature of either optional or compulsory compensation statutes will prevail in the highest courts, whether state or national. Notwithstanding volumes of over-fine analysis and distinctions, the one strictly vital question is whether an employer may free himself from the obligation to pay compensation by proving his own freedom from negligence or fault. And that he may not claim such a right, in the face of a statutory declaration to the contrary, is determined sufficiently in at least five decisions from the Supreme Court of the United States, to say nothing of a score or more of cases in state supreme courts.

It, therefore, may be taken as settled that henceforward the workmen's compensation system is to be a part of our industrial order. If there were less adequate sanction for it in definite principles of law, strictly construed, there still would be abundant sanction in the great principle—legal, too, in a sense—which Justice Holmes invoked in 1911 in his epoch-making opinion in the Noble bank case. "It may be said in a general way that the police power extends to all the great public needs. It may be put forth in aid of what is sanctioned by usage, or held by the prevailing morality and strong and preponderant opinion to be greatly and immediately necessary to the public welfare." In view of this principle, it well might be that a decisive consideration in favor of the constitutionality of the compensation acts should be found in that prompt and general legislative

acceptance and that present popular approval to which attention has been turned.

If now it be noted further that this general acceptance of workmen's compensation has been accomplished not only without any appreciable disturbance of our social relations, either in industry, or in our legal system, or elsewhere, but with a common agreement that conditions and relations have been improved, the broadest outlines of the present situation will have been marked. It then will remain to trace a number of special developments in a more definite and positive manner.

The most conspicuous excellence of the compensation system, as its merits were presented by its early American advocates, was that it would afford greater pecuniary compensation and solace for the losses and sufferings of the victims of industrial accidents. That it has done so is not open to doubt.

There have been no attempts to sum up the grand totals of compensation awards for all of the states. Nor would it be worth the necessary effort to do so. Even within a given state there sometimes are such changes of method in the presentation of data that items are of varied or uncertain significance. It must suffice now to submit typical figures from several of the states, figures which, unfortunately, are not generally or closely comparable. In Wisconsin the cash benefits actually paid from the beginning, in 1911, until June 30, 1918, had amounted to \$5,144,000, in addition to some \$1,773,000 for medical care, making thus a total of \$6,917,000. The losses reported under the comprehensive insurance provided in West Virginia amounted to \$6,678,237 in the five years, 1913-18. In California there had been awards of at least \$13,370,000 from January 1, 1914, to December 31, 1917. In Ontario in the four years, 1915-18, there were cash awards to the amount of \$9,332,524, aside from all provision of medical care. In Massachusetts in the first six years of compensation there were awards of \$20,253,000 in cash and medical care. In the first three and a half years of the New York law benefits to workmen whose employers were not carrying their own risks, about 85 per cent of all, amounted to \$36,631,000.

Large as these figures are, they become more impressive when it is noted that, in each case, the periods covered include the first years of compensation experience, when a number of conditions combine to keep payments, and even awards, far below the heights to which they naturally soon must rise. After

a few more years of experience the amounts of the benefits will be much greater than they are now. So, of the total of \$9,332,500 awarded in Ontario in four years, no less than \$3,514,600 belongs to the one year, 1918, when medical care to the amount of \$370,000 was also provided. In Pennsylvania in 1917, the second year of compensation, benefits paid and awarded amounted to \$7,161,000, while the figure for the next year was \$11,640,000. In Illinois in the single year, 1917, cash benefits to the amount of \$4,906,000 were paid. And, of the \$20,250,000 awarded in Massachusetts in six years, \$4,647,500 was for the latest year reported upon, 1918.

Yet even in Massachusetts the awards are still far short of their normal maximum. Even if there should be no increase in the number of injuries or in the scales of benefits, and if workers already have learned fully about the law and never neglect to claim their rights under it, the maximum cannot be reached until after 1924. For it was in 1914 that the term for the payments of benefits for fatal injuries was extended to 500 weeks, approximately ten years. And so it is in other states. Since there are many states which allow 500 weeks or ten years of payments for death and permanent disability, as well as a number which continue payments on account of these same injuries during the life of the beneficiary, it is clear that it must be a great many years before the stoppage of payments which will have run their full term will balance the payments which will be starting anew. But all influences must be counted at their true weight. So far as the sums paid on awards may be increased by the growth of industry and its personnel or by a rise of wages *pari passu* with general prices there may be no change either in the real value of the benefits for those who receive them or in the real burden which the awards place upon industry. But so far as injuries may become more frequent or more serious through the introduction of more powerful or more rapid machinery or through the taking on of new and untrained operatives, or so far as workers may seize more fully the advantages which the laws offer them or even may lean more heavily upon the law, as they appear to have done in certain European lands, there must be for an indefinite time to come an increase in the values, real as well as in mere money, of the benefits which American employees will receive under the compensation laws. There is every prospect, too, that the laws will be made more comprehensive, not only will be extended to

the few states which now have them not, but everywhere will come to cover workers more generally. But, even if the country as a whole, by one change and another, should never come to make more liberal allowances than had been developed in Massachusetts in 1918, the total for all of the states would be not far from \$125,000,000 or \$150,000,000 a year. If the experience of Pennsylvania and New York be taken as an indication of what is to come, the figures must be placed higher, perhaps at \$200,000,000.

Such sums for a probable future are truly enormous. But when the amounts now paid out or likely soon to be paid out, a few or several millions yearly in a single large state and a few hundreds of thousands or even less in smaller states, are averaged over the total numbers of beneficiaries, they do not appear large. For it must not be forgotten that a great many persons are the victims of industrial accidents each year. Thus the total payments in Wisconsin during practically the whole of her compensation experience, from September 1, 1911, to June 30, 1918, reduce to about an even \$100 for each compensated injury, cash benefits and medical care both included. Other states show rather lower average figures. In California in 1916 the average payment in all compensated cases was \$93.20. In Iowa total benefits averaged \$63.71 in 1917 and \$90.46 in 1918. In Massachusetts during the first five years of the law the average costs per case for all payments, as actually made and estimated to be outstanding, were: 1913, \$40.53; 1914, \$43.58; 1915, \$43.38; 1916, \$43.56; 1917, \$38.98.

These figures and others of the same general character are not very instructive. They are not fairly comparable one with another. They run in terms of a vague general average of widely different particulars; and they are affected in many ways by the situations in the several states. The more recent the institution of the compensation system the wider the difference between awards and actual payments. And the provisions of the statutes vary so widely, as to ratings of awards, extent of medical care, duration of payments, and so on, that general averages yield no real information as to what compensations are received for definite injuries under definite conditions.

It is somewhat more instructive to consider the awards made for specific injuries, of which the practical consequences may be understood readily. For fatal injuries the average award made in Connecticut in 1915 was \$2,269. In Illinois in the same

year awards for the same injury averaged almost exactly the same, \$2,273. In California the awards averaged \$2,445 in 1917 and \$2,625 in 1918. In Pennsylvania for 1916, 1917, and 1918 the figures were \$2,383, \$2,272, and \$2,659. In the first year of the New York law, awards for fatal injuries averaged \$3,241. In Oregon in the two-year period, 1915-17, the awards, where there were dependents averaged \$5,752. In Massachusetts for the first five years the figures were: \$1,367, \$1,781, \$2,970, \$2,603, and \$2,631. In Ohio in 1915 the amount was \$3,098. Perhaps it will be accurate enough to put the general average for all of the states at about \$3,000, or something less.

The payment of from \$2,500 to \$3,000 is manifestly inadequate compensation for the death of a bread-winner. None can deny that. But it must be remembered that the purpose of the statutes never yet has been to make full compensation for the pecuniary losses due to injuries. The pertinent question is whether such amounts, painfully inadequate as they are, are not greater than the amounts paid and received on account of the death of industrial workers before the compensation system was introduced. And, in this connection, it will not do to raise for comparison the sums awarded by way of damages in suits at law. Probably such damages did amount to considerably more than \$3,000, on an average. But they came only after protracted and expensive litigation, so that their net amounts for successful litigants should be reduced much for purposes of comparison with present compensation awards, which are made more promptly and with only trifling cost to the beneficiary, or none at all. When due allowances have been made for direct and indirect costs of litigation, a \$3,000 verdict, or even \$5,000 or \$10,000 becomes a much smaller thing than at first it appears to be. But even more important is the sad fact that, when employees were killed at their tasks, suits at law were not always brought and pushed to a successful issue. In a great majority of the cases no suit was brought. And such suits as were brought were not always won by the plaintiffs. For much the larger number of fatal injuries there was either no payments at all or only such payment, large or small, as the employer might feel inclined to offer. And in all too many cases he felt inclined to offer nothing, or only a piteously small sum.

For information upon this unpleasant subject there are now no more valuable data than the figures presented by the state commissions of inquiry which reported some ten years ago with

reference to the desirability of enacting compensation laws. These show that in great numbers of cases employers, even some of the largest and most prosperous of them, frequently neglected to make any payment whatever to the dependents of those who had been killed in their service. In many cases money was paid, but in sums so petty as to be little better than nothing, \$50, \$100, or perhaps a little more. Cases in which the payments ran in thousands were extremely rare. It may be a not unfair sweeping generalization to say that under the so-called liability laws payments at any amount were not made in more than a third of the cases of fatal injury to employees. And the average of the sums actually paid would be in the small hundreds. A careful study has shown that in Pennsylvania shortly before the passage of the compensation act the average amount paid on account of fatal injuries was \$261, at a time when under the compensation laws of Connecticut and Ohio the corresponding figures were \$2,269 and \$3,098. The next year in Pennsylvania the average compensation award on account of fatal injuries was \$2,383, while in 1918 it was \$2,659, a little more than ten times as much as had been secured under the liability laws.

There can be no reasonable doubt that the compensation awards made for fatal injuries do mean a large increase from the petty and uncertain sums which dependents received under the liability laws. The differences appear so great in the loose comparisons which it is possible to make that, to a complete certainty, they could not disappear after the fullest collation of data. Indeed, the differences now apparent may quite as likely be below the reality as above it. And it must not be forgotten that such sums as now are received come promptly and without appreciable costs to the recipients. It is true that much the greater number of compensation awards for fatal injuries, as for other injuries, are paid in a continued series of small sums, not at once in a lump, and that, in so far, the awards must be discontinued for purposes of close comparison with the payments made in full at one time under the old order. But again the difference in amounts is so much in favor of the compensation awards that a full discounting of them could not bring them down to or near the level of the liability payments. It might, indeed, not be unreasonable to maintain that, on the whole, the series of continued small payments are the better arrangement for beneficiaries. That, at least, has been the judgment of those who made the compensation laws.

WHAT WORKMEN'S COMPENSATION INSURANCE MEANS TO THE MANUFACTURER¹

With compensation the burden is passed on to society in an orderly and moral manner by increased price increments to the consumer.

In the old way, however, society has to bear the burden in the form of charity and upkeep of institutions necessary for the care of crippled workmen or the unprovided-for families they leave behind them when they are killed. What is the use of quibbling, therefore, as to whether the fault of the accident is that of the employer or employee?

Laws That Make the Employer Liable

Illustrating this argument in another way, we might consider the task of moving freight. Incidental to this movement there are a certain number of wrecked freight cars, the cost of which, of course, is included in the charge of operating expense. This operating expense in turn is covered by freight rates; the shippers pay the freight charges and include them in the price of their goods to the consumer. Thus, wreckage of freight is automatically taken care of by charges to the ultimate consumer.

Why should not the cost of wreckage of human workmen incidental to the production of goods be passed on to the ultimate consumer in the same manner? Every industry, I believe, should take care of its own human wrecks incidental to production in that industry.

In some states compensation is refused where the man injured has been intoxicated or has exhibited gross carelessness. As usually expressed, the laws state that compensation is to go for injuries "arising out of and in course of employment not due to wilful intention to injure self or another or to intoxication." Some states also make an exception in case the employee fails to make reasonable use of safety appliances.

Such penalization, however, is not wholly rational, for, no matter how incurred, injury or accidental death cause suffering and deprivation and eventually the cost has to be passed on to society anyway. If such a procedure is to be justified, it can

¹ From article by Albert W. Whitney, General Manager, National Workmen's Compensation Service Bureau. *Factory*. 26 : 1307-10. June 1, 1931.

be only on the ground of making the employee more careful. It should be considered, however, whether, if the employer knows that he is to be responsible for all accidents that occur in his plant, he will not put into effect rigid safety and disciplinary provisions that will largely eliminate the possibility of such neglect.

Workmen's compensation laws involve an obligation on employers to pay to injured workmen or to their families in case of death, irrespective of the fact as to whether the fault of the accident lay with the employer or employee, certain sums of money generally stated as a percentage of the man's annual earnings. Being thus held liable for accidents occurring in his plant, the natural effect on the employer is to do his best to prevent all such accidents from happening.

Therefore, though workmen's compensation is primarily a system whereby a workman or his family is compensated for injury or accidental death, practically it has the effect of increasing industrial efficiency through reduction of accidents and elimination of accident hazards.

It is well thus to put the responsibility for accidents on the shoulders of the employer, for the employer is an efficient person, otherwise he would not be an employer, and when he realizes that full costs for injuries must be borne by him he will organize his business in such a way as to take care of those costs. Furthermore, in order to reduce those costs, he will endeavor to reduce the number of accidents by the installation of safety devices and the inauguration of a continual educational campaign. He will see, then, that the best way to provide for payment of workmen's compensation is to make provisions in his plant so that he will not have to make payment. In that way, instead of endeavoring to avoid the effects of misfortune, he bends every effort to prevent misfortune from occurring through accident in his plant.

In most cases the employer passes the actual responsibility for compensation payments on to insurance carriers. In some states, in fact, this is required by law, while in other states the employer can carry his own insurance on proof of his financial ability to do so or by provision of suitable bond.

When the employer passes this responsibility on to an insurance company he goes a step further in the direction of accident prevention, for these companies, being specialists in this

work, are better equipped to solve the various problems that arise in this field and to give expert advice and assistance to the employer in inaugurating his accident-prevention campaign.

The insurance company also can, by combining a great number of risks together, install the machinery for handling them more efficiently and effectively than the individual is able to do. This does not apply, however, to certain very large concerns which are so big that they are able to install what virtually amounts to the complete machinery of a separate and distinct insurance organization of their own. Some states, however, notably Massachusetts, require everybody to insure.

The insurance company, by specializing as it does, is able to maintain a corps of trained inspectors who are usually better fitted for their work through wider and more varied experience than those that the individual employer can put on his force.

By distributing the work of its inspectors over a great many plants, moreover, the insurance company is able to utilize a higher grade of inspector than the individual employer can afford.

Why Competition Has No Place in Compensation Insurance

Certain states have provided funds for the payment of compensation insurance; in some of these states the fund is monopolistic and in others competitive. The best operated of these state funds, is that of Nevada for the monopolistic and that of California for the competitive. Most of the workmen's compensation insurance is carried through the stock companies (about 75 per cent), although the mutual companies and competitive state funds are making signal advances.

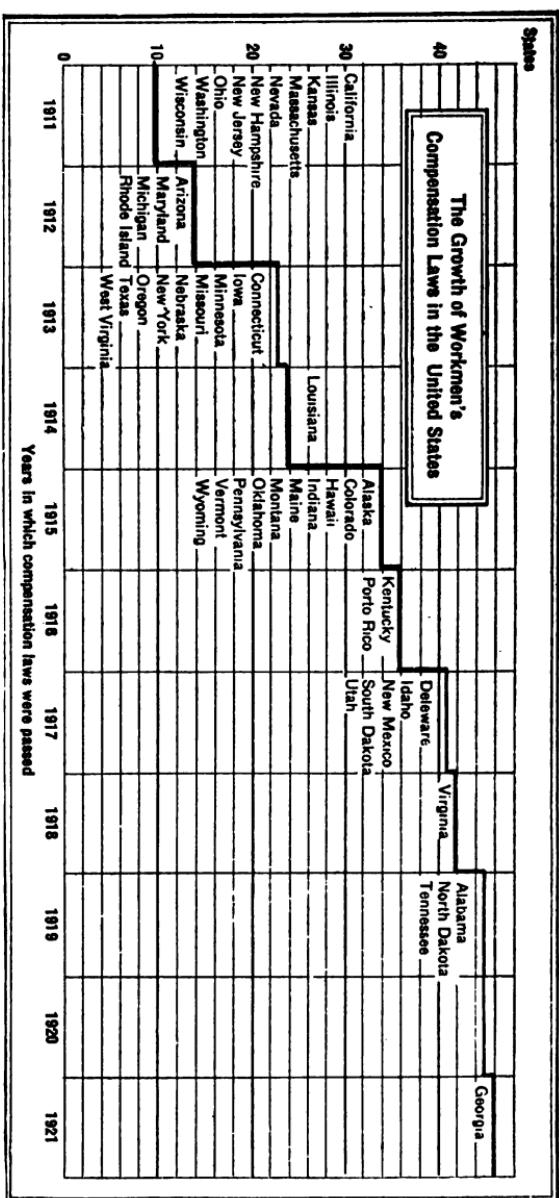
The need of a regulatory body to govern the conduct of workmen's compensation insurance was recognized soon after the first workmen's compensation law was passed, and so in December, 1910, various companies that had previously been caring for liability of employers under common law formed the National Workmen's Compensation Service Bureau. The necessity for this cooperative effort by the companies in the establishment of rates, commissions and guiding principles has not been questioned, because insurance departments and industrial commissions realize that it is needed in the interests of the public and they stand behind the movement with their influence.

One of the chief duties of this central bureau is to fix rates,

for startling as it may seem, competition in rates or prices has no place in insurance. Unregulated competition, it has been proved, leads frequently to insolvency of the insurance companies and consequently to the destruction of the coverage for the injured employee and his dependents. It also leads to gross discrimination in matter of rates between employers whose hazards are the same. Under competition, furthermore, that employer who is best able to do so can bring pressure to secure a lower rate: thus there is liability of a vicious discrimination in favor of the strong.

While the formation of the National Workmen's Compensation Service Bureau for the purpose of regulating rates was brought about by private initiative, the various states soon found it necessary also to regulate rates, and in this regulation they have followed the procedure already developed by the insurance carriers. In fact, some six states have utilized the machinery put together by the National Workmen's Compensation Service Bureau for the regulation of their rates and selected the branch offices of the bureau as official rating offices of the states. Other states such as New York and Pennsylvania have formed independent bureaus.

In the further adjustment of rates up to recently there was the informal cooperation of the various insurance carriers, insurance officials and such organizations as the National Workmen's Compensation Service Bureau and National Association of Mutual Casualty Insurance Companies. About a year ago, however, an advisory organization known as the National Council on Workmen's Compensation was formed to handle the making of rates in an organized way. The members of the National Council include nearly all insurance carriers, the National Workmen's Compensation Service Bureau, the National Association of Mutual Casualty Insurance Companies and independent rating bureaus in such states as New York and Massachusetts. In this way practically all the insurance carriers of the United States have become affiliated with the National Council. Although purely an advisory body, the National Council is well provided with data and facilities for rate making and its recommendations accordingly, therefore, are almost universally followed. State officials having jurisdiction over workmen's compensation rates cooperate with the National Council on Workmen's Compensation. These officials are chairmen of all the National Council's standing committees.



THE PROOF OF THE NEED FOR WORKMEN'S COMPENSATION LAWS

The adoption of laws by one state after another when the efficacy of the laws in Europe and those adopted first in this country became known showed the recognized necessity for an orderly method of placing the burden of injured workmen upon society.

EXTREMES OF LIBERALITY IN THE COMPENSATION PROVISIONS OF THE VARIOUS STATES

From the United States Bureau of Labor Statistics

Nature of provision	Most advantageous provisions		Least advantageous provisions	
	State	Amount or percentage	State	Amount or percentage
Percentage of employees covered	New Jersey	99.8%	Porto Rico	20.5%
Compensation for death	North Dakota United States	}\$17,582	Oklahoma Vermont	None \$2,557
Compensation for loss of hand...	North Dakota	\$3,640	Colorado	\$1,040
Compensation for 4 weeks' disability	Nevada	\$59.63	New Hampshire Virginia	}\$20
Compensation for 13 weeks' disability	Nevada	\$193.80	Porto Rico New Hampshire Virginia	\$91 \$110
Medical service...	(1)	Unlimited	Alaska Arizona New Hampshire	None
Waiting period...	Oregon Porto Rico	{ None	(2)	2 weeks
Weekly maximum compensation ..	California North Dakota	\$20.83 \$20.00	Porto Rico	\$7
Weekly minimum compensation ..	Illinois Oklahoma	\$7-\$10 \$8	Hawaii Louisiana Porto Rico Vermont	}\$3

(1) California, Connecticut, Idaho, North Dakota, Porto Rico, and the Federal Government.

(2) Alabama, Alaska, Arizona, Delaware, Iowa, Maryland, Montana, New Hampshire, New Mexico, New York, Rhode Island, Tennessee, and Virginia.

MEDICAL ASPECTS OF WORKMEN'S COMPENSATION¹

A brief summary of the Workmen's Compensation Act of New York State will indicate the extent to which New York is

¹ From article by the Public Health Committee of the New York Academy of Medicine. Medical Record. 100 : 766-70. October 29, 1921.

endeavoring to meet the problem. Employers of labor in hazardous occupations—and this affects 80 per cent of all wage-earners in the state—are made directly responsible for the payment of certain fixed compensation for accidents and for supplying needed medical attention for sixty days. The scope of this law has recently been extended to cover so-called "occupational diseases," arising directly out of the conditions of labor, but not due to a specific injury. The burden of this compensation is through the industry ultimately shifted on the consuming public.

To safeguard the employee, should his employer go into bankruptcy, the employer is required to insure himself either in a stock or mutual insurance company, or in the State Fund; or he must furnish evidence that he will be able to pay any compensation claims made against him. Employers so bonded are termed "self-insured."

The law allows compensation in accident cases as follows: for the "waiting period" of fourteen days, no compensation (unless the disability lasts more than seven weeks); for each week of disability thereafter, two-thirds of the weekly wage, not to exceed \$20 nor to be less than \$8. In case the weekly wage is less than \$8, the whole amount is paid. As 70 per cent of industrial accident cases recover in the first week and 12 per cent in the second, these compensation provisions affect only 18 per cent of all injured workers.

For the loss of a member compensation estimated at the rate of \$20 a week for a specified number of weeks is paid. Examples of these specific awards are shown in the tables given on page 86. These sums are paid in weekly installments, the intent of the law being to pay compensation in lieu of wages. For facial disfigurement and head and back injuries a lump sum is paid in settlement.

Comparison of some of these awards with the schedule formulated in 1917 by the Committee on Statistics of the International Association of Industrial Accident Boards and Commissions is shown in the following tables. The schedule of the committee, while not intended as an ideal basis for compensation awards, but as an attempt to obtain a more accurate measure of industrial hazards, furnishes a certain standard of comparison. It will be seen that the New York State law, liberal as it is when measured by other existing laws, must be made still more liberal in order to furnish really adequate compensation for injuries.

SELECTED ARTICLES

	Standards of Interna- tional Com- mittee	Provisions of the New York State Law	Percentage of adequacy of New York's sched- ule
Permanent total disability.	1,000 wks	Life	100%
Loss of arm (at shoulder)	750 wks	312 wks	42%
Loss of hand.....	500 wks	244 wks	49%
Loss of thumb.....	100 wks	60 wks	60%
Loss of index finger.....	50 wks	46 wks	92%
Loss of leg (at hip).....	750 wks	288 wks	38%
Loss of foot.....	400 wks	205 wks	51%
Loss of great toe.....	50 wks	38 wks	76%
Loss of sight of one eye..	300 wks	128 wks	43%

If the International Committee's schedule is taken as 100 per cent adequate, the New York schedule appears low. Omitting the figures for permanent total disability, the adequacy of the New York schedule for an average of all the injuries given is 56 per cent of that of the committee; for an average of the major injuries (*i.e.* loss of arm and leg) it is 40 per cent; and for an average of the minor injuries it is 62 per cent. This schedule refers only to time. The percentage of adequacy is reduced by the provision in the New York law, allowing only two-thirds of the wages. The following table illustrates a comparison in money benefits for a man earning \$20 a week:

	New York State	Percentage of adequacy of New York's sched- ule	International Committee schedule
Permanent total disability.	\$20,000	\$13,333 ¹	67%
Loss of arm (at shoulder) ..	15,000	4,160	28%
Loss of hand.....	10,000	3,253	33%
Loss of thumb.....	2,000	800	40%
Loss of index finger.....	1,000	613	61%
Loss of leg (at hip).....	15,000	3,840	26%
Loss of foot.....	8,000	2,733	34%
Loss of toe.....	1,000	507	51%
Loss of sight of one eye....	6,000	1,707	28%

¹ New York gives a life benefit, but this sum is calculated on the 1,000 weeks provided in the Committee's schedules.

Again omitting the figures on permanent total disability, the adequacy of the New York schedule for an average of all the injuries given is 38 per cent; for an average of the major injuries it is 27 per cent, and for an average of the minor injuries it is 41 per cent. Below is a table of these average percentages.

	All Injuries	Major Injuries	Minor Injuries
New York time benefits.....	56	40	62
New York money benefits....	38	27	41

It will be seen from the foregoing table that the relative adequacy of compensation in time and money benefits is much less for major injuries than for minor injuries, in spite of the fact that the major injuries have a much more deleterious effect on earning capacity than have the minor injuries, and, therefore, a more lasting effect on industry.

At present the law does not allow compensation for the period of disability concurrently with the granting of specific awards. That is, if a man receives compensation for sixty weeks for disability as a result of complications arising from the loss of a thumb, his claim for the specific award of sixty weeks' disability—the award allotted to such injury—is disallowed on the ground that he has already been paid sixty weeks' compensation. An amendment to the law has been suggested, making it possible to grant both awards for the same injury.

In case of death compensation is paid to survivors of the workman on a weekly basis, the amount varying according to the number of dependents, but the total must not be more than two-thirds of the weekly wage nor exceed \$20 a week. Widows or widowers receive compensation for life unless they remarry, children until they are eighteen years of age. The average death case costs the insurance company about \$4000.

If the worker dies without dependents, \$1000 is appropriated by the insurance carrier and paid into two state funds, \$100 to a special fund to pay compensation in case of the loss of a second member, and \$900 to the vocational re-education fund. The first fund referred to is used in the case of a one-armed man, for example, who loses a second arm. The employer pays compensation for the loss of the second arm only, the additional compensation to the worker being paid out of this special fund.

The Administrative Machinery

Under the reorganization of the State Department of Labor this year, the administration of workmen's compensation laws rests with the State Industrial Commissioner, appointed by the Governor for a term of four years. The judicial duties connected with workmen's compensation are performed by an Industrial Board of three members, also chosen by the Governor. This Board determines all claims for compensation, all claims for medical service or attorney's fees and enforces the provision of proper medical attention for injured workers. A number of referees are appointed by the Commissioner, whose duty it is to conduct hearings and to determine claims for compensation. Their decisions in compensation cases stand as the decisions of the Industrial Board, unless altered by the Board itself.

A compensation case is considered closed when the final award is made or compensation disallowed, but as a matter of fact it may be reopened at any time on application of the claimant, the insurance company or the Industrial Board, the Chairman of the Board deciding whether or not a new hearing may be granted. Cases may be appealed, within a limited time, to the Appellate Division of the State Supreme Court on a question of law only. The finding of the Industrial Board on a question of fact is final.

According to the Workmen's Compensation Act, the employer is required to provide a maximum of sixty days' treatment for any industrial injury, but the Industrial Board may, where the nature of the injury or the process of recovery indicates a longer period of treatment, require the same from the employer. This provision, by a liberal interpretation of the law, affords practically unlimited treatment.

If an employer fails to provide a physician, or if the employer's physician is rendering inadequate or improper treatment, the employee has the right to select his own physician at the employer's expense.

Before a final award is made, the claimant is sent to a physician for an examination and report as to the extent of his injury and the necessity for further medical treatment. In some of the upstate districts this examination is made by a member of the Medical Department of the Compensation Bureau; in other districts to which no member of this Department has been assigned, a physician is selected by the Referee holding the hear-

ing and is present to examine the claimant at the hearing; he is paid by the insurance company involved. In New York City there is a staff of full-time physicians belonging to the Medical Department of the Compensation Bureau who make the examination. The physician of the claimant and the physician of the insurance company may be present at these examinations. The duties of the medical staff of the Compensation Bureau include the physical examination of claimants, the review of medical testimony at hearings, the examination and medical analysis of claim papers, the giving of testimony and cross-examination of witnesses at hearings, and the recommendation of specialists at the request of the Commission. They make something over twenty thousand physical examinations a year. Considering the importance of the work done they are absurdly underpaid, as are all doctors connected with the Bureau, especially as they give their full time service. The salaries paid are as follows: The Chief Medical Examiner, \$6,000; one assistant medical examiner, \$3,250; three assistants, \$2,500 each and one assistant, \$2,250. The Medical Advisor of the State Insurance Fund receives \$3,500 and three medical inspectors of factories \$2,500 each.

It is sometimes difficult to decide whether a disability is the result of the injury as claimed, or whether the condition existed prior to the accident. In such cases, the workman is sent to a specialist for examination. For example, a man may receive an injury to an eye and sustain thereafter partial loss of vision. His natural conclusion is that the injury caused the blindness, but it may be that the loss of vision is due to a cataract which existed before the injury. In cases where the cause of disability cannot be determined by the specialist, the presumption is always in favor of the employee. Charges of the specialist for such examination are forwarded through the Medical Department of the Compensation Bureau to the insurance companies and payment returned by the same route.

In Ohio much "red tape" is eliminated by having the attending physician file a report of his estimate of disability. If this report is in accordance with usual findings in such cases the estimate is accepted without further examination. It is only in unusual cases that a special investigation is made by a medical claim examiner acting under the Industrial Commission. In unusual cases, the local medical examiner makes a prompt

examination, so that his report reaches the Commission before the first compensation payment is due. The "waiting period" is only one week, after which compensation is allowed. If the examiner's report differs from that of the attending surgeon, the decision is left to a specialist agreed upon by both, and the Commission pays for the examination. By reason of this direct settlement of medical questions less than one per cent of all compensation claims come up for hearings before the Commission.

The State of Washington provides for local medical aid boards, each board to consist of a representative of employers and employees to administer the medical service under workmen's compensation. These boards must provide care for the injured and are responsible for reporting data concerning all accidents to the State Medical Aid Board, and for certifying physicians' bills.

The Workmen's Compensation Bureau, one of the largest bureaus of the New York Department of Labor, is financed, nominally, by an appropriation from the State Treasury. As a matter of fact, all expenses of this Bureau are refunded to the State Treasury. Each year the State Insurance Fund, the insurance companies and the self-insurers submit a statement of awards, excluding medical service, paid by them during the year, and a pro rata percentage of these awards is assessed on each, to cover the expenses of the Compensation Bureau. The cost of the operation of this Bureau is a very small item in the running expenses of insurance companies, being only about $\frac{1}{2}$ per cent of the value of premiums paid.

The Choice of Physician

All injuries, no matter how slight, are required to be reported by the workman, and the employer must in every case, whether or not the injury is compensable, furnish medical attention. This requirement gives rise to much controversy concerning the rights of employer and employee to select the physician. The employer holds that since he must pay the bills he has a right to select the physician or surgeon employed. The principal arguments in favor of this plan are, briefly:

1. That it is to the interest of the employer to return the worker to industry as quickly as possible, and he will, therefore, endeavor to provide the best medical aid obtainable to insure the speediest and most complete recovery;

2. That his judgment is better in selecting the surgeon for any given type of injury than that of the workman who may be illiterate, ignorant of hygienic principles, and often not even able to speak English;

3. That many accident cases must be sent to hospitals having their own staff of doctors for treatment of various types of cases. If the patient were to insist upon calling in his own physician, much confusion would result and the patient, furthermore, would often suffer the disadvantage of being treated by a man not experienced in the treatment of his particular injury. It is not yet generally recognized that traumatic surgery is a specialty requiring special training, after a solid foundation in general surgery;

4. That the employer's physician would do his utmost to prevent malingering or simulated traumatic neurosis. He should, if properly selected, be sufficiently skilled in the treatment of accident cases to prevent to a very large extent the creation of a real neurotic condition arising from the shock of the injury and the workman's worry about himself and his family, and

5. That the employment of a plant physician, as is the practice in many large establishments, encourages the workman to report minor injuries for treatment. If, on the other hand, he waits to consult his own physician the injury often becomes septic through neglect and develops into a serious case.

The arguments favoring the selection of the physician by the injured employee may be thus summarized:

1. That the free selection of one's own physician is conceded to be one of man's inalienable rights. The relation between patient and physician is private and personal, and a man naturally desires a physician who can understand him and in whom he has confidence. It is this feeling of confidence in the physician that is one of the most important factors in insuring the patient's peace of mind and hence hastening his recovery, and

2. That physicians selected by the employer or his representative, the insurance carrier, are often employed on a contract basis. This means, often, inefficient treatment and a tendency to minimize the injury and rush the employee back to work as quickly as possible.

Many conscientious employers exceed the requirements of

the law in providing medical, surgical, prophylactic, and nursing care, but unfortunately there is an increasing tendency among others to employ physicians on a contract basis. In New York City, there has grown up a very large demand on the part of employers for an organized medical service which will reach all parts of Greater New York, and this demand has been met largely by a number of commercially organized services, not always of the highest type. The largest and most comprehensively organized of these services has no chemical or x -ray laboratory facilities, and the men connected with it lack adequate surgical training. These services, however, present certain advantages.

A compromise between the two courses is the so-called "panel system" which has been employed in California. In that state physicians and surgeons competent to treat industrial accident cases are nominated by the State Insurance Fund, and from this panel the injured workman may select the doctor by whom he wishes to be treated. In practice the workman has virtually free choice of his physician, as only the rank incompetents have been eliminated from the panel. This scheme is much discussed in other states, but it scarcely offers a solution of the problem, for in the preparation of the "panel" the state fund hardly possesses the competence to draw sharp lines of distinction between practitioners, except perhaps in small localities. It must needs be very liberal and that means that the average man with insufficient training in traumatic surgery and no adequate office equipment to treat these cases to a conclusion, would receive official sanction. The system, moreover, is open to abuse and political interference with the practice of medicine.

Compensation for Medical Services

The question of medical and hospital fees has, from the beginning, proven a stumbling block to the smooth operation of the law. The law in New York required that all fees and other charges for medical and surgical treatment "shall be limited to such charges as prevail in the same community for similar treatment of injured persons of a like standard of living." Before the passage of the Workmen's Compensation Law, physicians and hospitals frequently treated injured workmen free of charge or for a nominal fee, because of their incapacity to pay the ordinary charges. Many insurance companies interpret

the law as meaning that hospitals and physicians should continue to treat injured workmen at a low charge as before, while the doctors are of the opinion that the insurance companies should pay reasonable charges for services rendered.

In order to avoid such controversies, many of the larger industrial plants have established their own hospitals and employ their own physicians. Whereas a great many very good men have started as company or contract physicians, using the experience as a stepping stone from which to advance, they very often cannot afford to stay in the work long on account of the inadequate scale of remuneration that has prevailed.

Twenty-eight states authorize their Compensation Commissions to fix schedules for medical and hospital services. New York is one of these, but in this state the problem is yet to be adjusted. Directly after the passage of the Workmen's Compensation Act, the Compensation Commission drew up a minimum fee schedule as a basis of charges. The insurance companies, however, insisted upon regarding the rates agreed upon as a maximum, and the controversies arising from this difference of opinion caused so much trouble that the State Medical Society has since repudiated the fee schedule.

Practice of determining the schedules varies in different states. In Massachusetts, for example, and for that matter in New York, the reasonableness of the fee is determined by the charge which would ordinarily be made to the injured man in his locality and by the standing of the physician in his profession. Ohio, on the other hand, regards the whole question as an industrial accident problem and compensates medical services on the basis of treatment given, regardless of locality.

British Columbia has been particularly successful in arranging a fee schedule for medical service. This was done by collecting a mass of data as to the fees commonly charged and then in cooperation with representatives of all the medical men of the Province, arriving at a schedule of charges that seems to give entire satisfaction.

The rates in the fee schedule are uniformly somewhat lower than the rates charged for the same service in private practice, but the greater certainty of payment and the fact that no compensation cases are treated free offset the difference in charges. In several states an inquiry has been made to determine the effect of workmen's compensation on physicians' incomes. In

general the answers have indicated little change, or a slight increase in income, and very little dissatisfaction was found among physicians on this score.

INSURANCE FOR WORKINGMEN¹

Washington's plan for its workman's compensation plan is a form of state insurance. Under this, the employers do not become responsible for paying death and damage claims; the state assumes this responsibility itself. An injured workman in Washington does not rush into the court against his employer; nor does he file a claim against him. He looks for compensation to the commonwealth itself. The law has created a new and permanent administrative body of three, known as the Industrial Insurance Commission. This commission is composed of well known men not of the politician variety; Charles A. Pratt, the chairman, represents the manufacturers, John H. Wallace, a former business agent, represents the laboring man and Hamilton Higday the legal profession. Their business is to investigate all accidents as soon as they occur and pass upon their merits as expeditiously as is consistent with justice to all parties concerned. After making an investigation the commission attaches the victims, or their dependents, to its regular pension list, according to a schedule stipulated in the law. Though the state assumes the responsibility for these pensions and payments, it collects the money from the employers. The commission divides employers in extra-hazardous occupations into forty-seven distinct groups. Thus the proprietors of mines form one group, of powder factories another, of sawmills another, of canneries another, and so on. It annually collects from the employers so enrolled particular sums based upon a percentage of the payrolls. In this way, it collects forty-seven separate funds. Any person injured in a particular industry thus draws his indemnity out of the fund accumulated from the payments of that industry. In other words, each line of business shoulders the expense of its own casualties. The payments are in the nature of a tax levied for the privilege of engaging in an industry that constantly threatens the lives of the employees.

When this radical law—the only one of its kind in the United

¹ From article by Burton J. Hendrick. *McClures Magazine*. 40:169-77. December, 1912.

States—went into effect, nearly two years ago, there was a general expectation that the employers would oppose it. Hardly had the law passed the legislature when the agents of the casualty companies pounced upon them. There is no form of workman's compensation so unpopular with the casualty companies as state insurance, for its general extension means virtually their annihilation. In fighting this pioneer law in Washington, therefore, the casualty companies were fighting for their own existence. The law, they declared, was clearly unconstitutional; hadn't the Court of Appeals set aside a much less radical measure in New York State? They pleaded with the large employers to refuse to "come in"; to withhold their payments and look to the court for protection.

Unfortunately for the casualty companies, the Supreme Court of Washington, in the first case presented, declared that the new law contravened neither the constitution of the State of Washington nor that of the United States. The decision, however, probably had little to do in disposing the employers favorably toward the law. The closer they scrutinized the new compensation law, the more its terrors and injustices disappeared. True, it did require them to make annual payments to the insurance fund. When the employers figured the thing out, however, they found that these payments did not greatly exceed—in some cases were not so large as—those which they were annually making to the casualty companies. On the other hand, while not more than one sixth of the money taken in by the casualty companies ever reached the injured workman, practically all of the assessments paid to the state fund would clearly go to their employees. Again, the employers found consolation in the fact that this annual payment, once made, ended all their troubles. There would be no more law-suits, with consequent large attorneys' fees and expenses; no more constant pesterings from the "contingent fee" lawyer. And so, greatly to the chagrin of the accident companies and the "ambulance-chasing" lawyers, the five thousand employers in Washington at once began to send in their contributions. As a result, not far from one hundred thousand workmen and their families are now fairly adequately protected against the financial consequences of industrial accidents.

Washington never knew how many people the factories were killing and maiming every day until this law went into effect. The commission passes upon nearly five hundred accidents a

month. These represent all varieties of injury and disability. A certain percentage, of course, are fraudulent; others are merely humorous. There is, however no marked tendency to attempt imposition of this kind.

Obviously the state only can properly attend to the interests of such people; in cases of this kind a certain amount of paternalism is justified. And the attitude of the commission is, above all, paternal. Injured workmen and their families are the wards of the state. The law gives the commission a certain discretion in applying its funds, so as to accomplish the best results in particular cases. In many instances a representative of the commission personally visits the dependent family, looks carefully into its need, and makes such recommendations for the handling of its case as the circumstances justify.

The State of Washington has abolished that particular kind of poverty which is the consequence of industrial accidents. And the only people out of pocket are the personal-injury lawyers and the indemnity companies. How much longer these beneficiaries of the antiquated system will fight is not clear. What is certain, however, is that the battle they are waging is a losing one.

LEGISLATIVE DEVELOPMENTS IN WORKMEN'S COMPENSATION MATTERS¹

The most important recent legislative development of workmen's compensation legislation is in extending the benefits of compensation acts to include vocational reeducation and rehabilitation of men disabled in industry. Earlier legislation included only a percentage of wages to an employee while temporarily disabled, or a sum of money computed according to various methods for permanent disability. The responsibility of the state ended when the money was paid the workman, and but little supervision followed to determine whether the benefits would be applied in such a way as to improve the earning capacity or economic position of the crippled worker.

One of the great benefits derived from our recent war experience has been the development by the United States

¹ From article, *Trend of Workmen's Compensation*, by Will J. French, President International Association of Industrial Accident Boards and Commissions and Chairman California Industrial Accident Commission. *Monthly Labor Review*. 11 : 875-83. November, 1920.

Government of plans for reeducating and rehabilitating soldiers and sailors crippled in service, and the lessons and experience being developed by the Federal Vocational Board are now being applied under workmen's compensation acts to the rehabilitation of men disabled in industry.

In the industrial rehabilitation act, recently passed by Congress, Federal financial aid is now afforded the states if they will participate in relieving crippled workmen. This work properly belongs with industrial accident boards and commissions, as they are more closely in touch with industrial injuries than any other agency of the state to which the expenditure of funds for this purpose may be intrusted.

Without waiting for the industrial rehabilitation act, a number of states, notably California, New York, Massachusetts, Illinois, Pennsylvania, New Jersey, Minnesota, and Oregon, have proceeded independently to provide for reeducation of injured workers. In some states, a state appropriation is made available for this purpose. In others, a state appropriation, to be united with the Federal appropriation under the industrial rehabilitation act, is now being proposed. In others, the imposition upon industry of the burden of rehabilitating injured employees under the provisions of the compensation acts has been adopted upon the theory that the burden of rehabilitation is as much an industrial charge as that of paying the older forms of compensation. In all states the money raised for rehabilitation is put into a special fund to be expended by the proper state authority, under wide discretionary powers, similar to those exercised by the Federal Board for Vocational Education, instead of being awarded to employees by specific statutory direction.

It is to be hoped that with the Federal aid now offered each state will proceed promptly to exert its full powers for relief along this new line. To give a crippled employee money for his physical loss and turn him loose upon the state without restoration of earning capacity is nearly as bad as to do nothing whatever for his injury. To restore him to useful capacity and citizenship by wisely planning his reeducation is a service almost as useful to society as that rendered by earlier workmen's compensation acts in their entirety.

FURTHER PROVISION FOR DEPENDENTS

Is not the next legislative development in compensation matters indicated by the foregoing? If the rehabilitation of crippled

employees is important, why is it not equally important to provide for the establishment of earning capacity of widows and minor children where the father and breadwinner of the family is killed by industrial injury? At present the death benefits allowed in industrial-accident cases provide only for bare subsistence of the family for a limited period of time. The dependents are left to their own resources, without more than bare subsistence, in the development of earning capacity, and this without the guidance of the former head of the family. Would it not be well to consider the expansion of rehabilitation to include these classes of dependents?

SPECIAL FUND FOR GENERAL COMPENSATION PURPOSES

Another important development in recent legislative activity is the creation of a fund for general compensation purposes based upon a payment by the employer or insurance carrier to the state of a specified sum of money where an employee is killed by industrial injury, leaving no dependents. The sum thus assessed varies, I believe, from \$100 to \$1,000 in different states adopting this type of law. The primary purpose of such legislation is, of course, to raise a fund to be disbursed for useful compensation purposes. Usually such fund is devoted to the reeducation and rehabilitation of employees crippled in industry.

Apart from the purpose for which such funds are disbursed, the method of raising the fund by itself performs a useful service. If an employer must pay a heavy death benefit where an employee is killed who leaves dependents surviving him, and escapes with a nominal liability if there are no dependents, an economic tendency is inevitably created toward discrimination against married men or those having families dependent upon them for support. The imposition of a liability upon the employer in death cases where there are no dependents, to be used for general compensation purposes, tends to equalize the employer's liability and thus to check any possible discrimination of this nature. Furthermore, the imposition of such liability is an excellent method of uniform assessment upon employers for general compensation purposes, such as rehabilitation, welfare work, or support of the industrial accident board or commission, which purposes could not be accomplished by specific benefits to injured employees or their dependents.

UNIFORM FEDERAL COMPENSATION ACT

The Federal act, while admirable as an improved negligence statute, is, of course, wholly out of date at the present time, the states in their passage of workmen's compensation acts having far exceeded the relief afforded by the Federal Government by this statute. The great need now is to give railroad employees the same protection under workmen's compensation acts as employees in the more liberal states enjoy. This can be done either by the repeal of all Federal legislation on the subject, leaving railroad interstate employees to the protection of state laws, necessarily divergent, or by the enactment by Congress of a uniform Federal compensation act for railroad employees in interstate commerce. The disadvantage of the first suggestion is that the compensation laws of many states are still inadequate and in a very few non-existent, so that in some states railroad employees would be worse off than at present. The disadvantage of the second course is that it does not bridge the gap between the injuries sustained by railroad employees in local commerce and in interstate commerce, thereby continuing the same confusion as at present exists between state and Federal tribunals. If a uniform Federal system is to be adopted, it should apply to all railroad employees, without regard to interstate commerce at the moment of injury. This, Congress cannot do under the decision of the United States Supreme Court in the first employers' liability cases.

A practical solution eliminating much of the difficulty would be for Congress to enact a uniform Federal measure applicable to employees of railroads in interstate commerce, with a provision that the different state compensation boards and commissions should have concurrent jurisdiction with the Federal courts in determining suits arising under it. Such concurrent jurisdiction is now given by the Federal act to the courts of the different states in negligence cases arising under the Federal act. This would have the advantage, at least, of having a border-line case triable in the same tribunal under either law. In the event the tribunal applied the wrong law, i.e., applied the state compensation act when the Federal compensation act should have been applied, the only result of a reversal would be to correct the decision. The employee would not be thrown out of court and forced to bring an independent suit in a different tribunal, as is the result at the present time if suit be

brought before the state board when it should have been brought in the courts under the Federal act, or vice versa.

SOME PROBLEMS OF THE PARTIALLY DISABLED, IN WAR AND INDUSTRY¹

Each industrial cripple who is not offered a chance to become retrained for self-support may mean anywhere from ten to thirty years of labor wasted. Multiply this by the number of cripples produced each year and the waste is appalling.

In vocational rehabilitation a number of problems are involved. Cripples must first be assured that if they make efforts to become self-supporting they will not be penalized by losing their compensation. Real danger that they may be so penalized exists under certain of our compensation laws, which, in the effort to secure strict justice, make indemnity depend upon the wage loss actually experienced by each injured worker. Under this system every step toward improved earning power made by a crippled workman results in a reduction of his compensation benefits; complete reeducation, leading to a job paid as well as or better than the one he held at the time of injury, wipes out his indemnity altogether. Rightly or wrongly, therefore, he is tempted to conclude that the less he does to improve his earnings after the injury, the better, and this mental attitude forms a serious obstacle to any plan of vocational education which may be made for him.

Penalizing efforts at self-help is, however, not the only disadvantage of this method of determining compensation. It sometimes occurs that even without reeducation a cripple is reemployed at wages equal to or greater than those he formerly received, in which case according to the wage loss principle he will receive no compensation. This is neither satisfactory to the cripple nor entirely just, for there is no assurance that he may not lose his job at some future time, in which case his disability may prevent his securing a new position except at much reduced pay. There are even possibilities that an employer may take an injured workman back at his former wage until the time for filing claims has run out and then discharge him. If, to avoid the hardships brought about by such occur-

¹ From article by Irene Sylvester Chubb. *American Labor Legislation Review*. 8 : 294-305. December, 1918.

rences, the administrative body were to reopen cases every time a change of wages occurred, and adjust compensation accordingly, the administration would become almost unbearably burdensome.

The simplest method of avoiding these disadvantages was instituted by New Jersey, which, in the first American compensation law to go into effect and stay in force, set an unfortunate example for succeeding enactments. New Jersey adopted a hard and fast schedule which places a valuation of thirty-five weeks' compensation on a finger, one hundred weeks' compensation on an eye, etc., as the case may be. With more or less liberality in valuation nearly all states have imitated New Jersey. Besides administrative simplicity, this plan has the advantage that since compensation is fixed unchangeably when the extent of physical maiming is ascertained, with the definite understanding that anything the cripples do to improve their condition will not detract from their compensation, the chances are that they will be only too glad to supplement compensation by whatever they can do to help themselves.

As these specific disability schedules, however, were originally based on guess work without scientific basis and have not been materially improved, they show only the crudest relation between injury and compensation. Their most flagrant injustice lies in the failure to take account of age and occupation as factors in extent of disability. Consider, for instance, the effect of losing an index finger upon a linotype operator and upon a ditch digger. Such an injury may compel a linotype operator to change his vocation. A ditch digger may lose only a few weeks' work. Yet specific schedules treat both alike. Failure to consider age is almost equally unjust. To a skilled mechanic of forty the loss of a finger is a serious matter, because at that age adaptation to a new method of work or to a new job would be highly difficult. A boy of twenty, on the other hand, could make the necessary adjustments with comparative ease. Of course, the more highly specialized the trade, the more serious is the age factor.

Clearly, then, neither the plan of basing compensation upon the individual wage loss, nor the opposite method of awarding for each specific injury an unchangeable indemnity based on functional disability regardless of economic consequences, is an acceptable solution of the difficulty. What is needed is a partial disability schedule which, while taking into consideration the

probable diminution of earning power, will not penalize self-help by making wage loss a prerequisite for compensation; and which, while simplifying administration by determining the rate of compensation definitely at the time of injury, will still be sufficiently flexible to take due account of the elements of age and occupation.

The most satisfactory steps in the direction of such a schedule have been taken by the California Industrial Accident Commission, which, after careful study, worked out a set of tables showing the probable degree of economic loss which may be expected to result under a given combination of the three factors of injury, occupation, and age. With this set of tables it is possible, on the occurrence of any permanent injury, to determine at once the percentage of disability which that injury may be expected to cause to the average man of the given age and calling, and to award a definite amount of indemnity accordingly.

Thus, while the California plan may not prove to be above criticism in all respects, it does guarantee the injured worker against reduction or loss of compensation in case he endeavors to regain or even to improve his previous earning power. Without such a guarantee all plans of rehabilitation, for both war and industrial cripples, are likely to encounter indifference or even open hostility on the part of the persons they are intended to benefit.

Fortunately, in the Federal law for vocational reeducation of disabled soldiers and sailors the danger has been guarded against by including the following provisions:

A schedule of ratings of reductions in earning capacity from specific injuries or combinations of injuries of a permanent nature shall be adopted and applied by the bureau. Ratings may be as high as one hundred per centum. The ratings shall be based, as far as practicable, upon the average impairments of earning capacity resulting from such injuries in civil occupations and not upon the impairment in earning capacity in each individual case, so that there shall be no reduction in the rate of compensation for individual success in overcoming the handicap of a permanent injury. The bureau shall from time to time readjust this schedule of ratings in accordance with actual experience.

States should make equally just provision for their industrial cripples by amendments to their workmen's compensation laws.

After convincing cripples that they will sacrifice nothing by

reeducation we must also assure them that maintenance for themselves and their families will be provided while the retraining is in progress. It is conceivable that, provided they live in the city in which the institution for vocational reeducation is located, accident compensation may suffice for maintenance of a man and his family while he is attending the course. Institutions for industrial reeducation are, however, highly specialized and expensive, and in the immediate future it is out of the question to hope for their establishment outside the largest cities. In order, therefore, that an injured man with a family to support elsewhere may avail himself of the opportunity offered, financial assistance is essential.

The most feasible plan would seem to be for the reeducational institution to make maintenance scholarships available to those injured men whose family burdens were found to be such as to overtax the compensation allowance. If offered with the understanding that the restrained man should repay these scholarships in easy instalments as soon as he became self-supporting, such a plan would involve little expense to the institution. For war cripples provision for maintenance has already been made by continuing both family allowances and compensation during the period of reeducation as long as they faithfully pursue their training. For industrial cripples, on the other hand, provisions remain to be formulated. Whether they be by amendment to the compensation acts, permitting advances of compensation for this purpose, or by establishment of revolving funds in connection with reeducational institutions, it is difficult to see how any reeducational institution can attain maximum usefulness until some plans for maintenance scholarships are developed.

A complete program of rehabilitation will save to the nation the labor of thousands of men annually. But no system of rehabilitation will be complete which fails to take into account the effect of workmen's compensation provisions, as they now stand, upon the return of cripples to industry.

Some of the measures which must be taken in the near future to complete our program of rehabilitation for injured men apply equally to war cripples and to industrial cripples. Some states have already made beginnings. The program at which we should aim immediately includes:

1. Extension of the opportunity for vocational rehabilitation to industrial cripples.

2. Amendments to workmen's compensation laws which will remove
 - (1) existing penalties placed upon rehabilitation,
 - (2) injustices of specific injury compensation schedules.
3. Provision for maintenance during rehabilitation.
4. A branch of the public employment service specializing in placement of rehabilitated cripples.
5. Amendments to workmen's compensation laws which will relieve employers of severer compensation penalties for injuries to cripples than to normal workmen.
6. Adoption of adequate workmen's compensation standards throughout the entire country.

FUTURE OF SOCIAL POLICY IN GERMANY¹

The recollection that our ancestors suffered for centuries under an excess of state interference, and that they were forced to wage a desperate battle against state limitation of the freedom of society, is now barely understood. The advantages of economic security against competition, and the value of material wealth, are generally overrated; civic independence and freedom of decision and of power to carry on business are too little valued.

Let us glance at workmen's insurance. You all know that the concept of insurance is sound at heart. . . It was indeed important to counterbalance the dangers of the workman's tasks, and to offset sickness and dread of old age... The more the data accumulated, the clearer became the conviction that *grave dangers are inherent in workmen's insurance in the form in which we now manage it.*

A survey of the medical literature clearly shows that instruction in simulation and aggravation has actually become a special science since the introduction of workmen's insurance and *through workmen's insurance.*

But even simulation itself is not the worst. A far more dubious phenomenon is the formation in the consciousness of the masses of a trend of thought which creates close connections between every illness and a title to a pension. As a result

¹ Digest of article by Ludwig Bernhard, Professor of Political Science at the University of Berlin. Translated from *Stahl und Eisen*. 32 : 641-9. April 18, 1912, by Louis H. Gray, Ph.D.

attention is ceaselessly directed to the conditions connected with one's own body, and those nervous phenomenon appear which are called "pension hysteria" by physicians.

Formerly it was held in Germany to be manly and exemplary not to allow one's self to be crushed to earth by the misfortunes of life. The reserve power slumbering in man was to be brought into action to conquer by ignoring such ills and by becoming accustomed to them. Now physicians report that this virtue frequently flourishes only outside the working classes. They tell of merchants, employers, engineers, officials, scholars, and artists who discharge their callings, even though they must bear the burden of sickness and trouble, and who even strengthen their energy by conquering their obstacles and prove themselves capable of distinguished services.

I am far from asserting that this virtue, and this strength of character, cannot be found among workmen, but it can no longer be doubted that *those potent qualities are imperilled for the great bulk of the population*, since in the consciousness of the masses there is a living conviction that every illness and every accident must lead to a pension claim if only one's physical condition is carefully observed.

These are secondary tendencies which have increased to such an extent that it is high time to speak openly about them. We must clearly recognize that our beneficent institutions of social policy are a blessing only if their dangers are known and combatted. If, on the other hand, a mode of management is chosen at the dictation of terror of conflict and fear of the masses, then the means designed to make men stronger and happier will ultimately lead to the impairment and enfeebling of our nation.

For decades your circles have called attention to the fact that, through certain of its institutions, the social policy of Germany leads to an elimination of private initiative, to a check upon the spirit of enterprise, and to an annihilation of independence, and that countless bureaucratic interferences impede the progress of our industries.

Protection of workmen has, however, proved itself to be so necessary and so beneficial that it is the bounden duty of all to speak of these matters with respect and restraint.

Measures which have such a history can be criticised only with the utmost caution, for only by the expenditure of the

greatest care can the limits be found, with any degree of certainty, where the exaggerations of protection of workmen begin. The search for these limits is a thankless task. It is an easy and smug procedure to repeat, with variations ever new, the concept of the protection of workmen, and to recall, in that connection, a glorious past. It is difficult, on the other hand, yet absolutely essential, to determine precisely where the exaggerations begin, in order that what was a blessing may not become a curse.

Such proposals, made "for the protection of the workmen," open an endless vista before him who looks into the future. It is believed that the age is already dawning when personal initiative, independence, and energy shall be legally "forbidden" to private industries, and we involuntarily remember the alarming question asked by Alfred Weber before the Association for Social Policy: "Whether we do not create dependence where we desire to call forth independence, whether we do not create servitude where we desire to bring freedom."

Summarizing the results of our survey, it must be said that we meet everywhere with facts which no longer harmonize with the assumptions on which the social policy of Germany is constructed.

In workmen's insurance the demoralizing secondary tendency toward pension hysteria becomes a phenomenon of a suspicious character among the masses, while the insurance institutions are partly dependent upon political powers and partly fall under the malign sway of bureaucracy.

From the protection of workmen is developed a system of state control which checks the spirit of personal enterprise without benefiting the workmen.

In the domain of self-defense, moreover, i.e., in the workmen's organization, degeneration is in process of completion.

These are facts that call for reforms.

WORKMEN'S COMPENSATION ACT¹

There are at all times matters, besides buying, selling, and labour questions, which very materially influence the profitable character of every trade.

¹ By Benjamin Chapman Browne. *Times* (London) Engineering Supplement. p. 321-2. November 29, 1905. Also in his *Selected Papers on Social Economic Questions*. p. 77-85. Cambridge University Press. London. 1918.

One of these, which is of great importance, is the Workmen's Compensation Act of 1897 and 1900. This act has been productive of much good, but also of some, possibly serious, harm. . . It will be remembered that this act introduced a new principle in making an employer liable for accidents to his workmen, over which he had no control, and for which he might not be in the slightest degree to blame. The logic of this is, of course, that if a workman has an accident for which he is not to blame, he should not bear all the suffering and loss. Rather let it be borne by the community, or at any rate by the trade as a whole. The employer therefore compensates his workman, and seeks his remedy either by insurance or by taking his own risk, and must recoup himself, if he can, from someone else, and as he is only in direct touch with his workmen and his customers, the burden must fall either on one of these or on himself. We will investigate this hereafter.

Now in the case of a large employer the matter is tolerably simple. Taking one industry with another, we may consider that he can insure against all the risks under the act for about 10s., or $\frac{1}{2}$ per cent, on the amount he pays in wages, while to the workmen the benefit of the act involves, in case of accident, the whole difference between tolerable comfort and utter ruin; and, as long as the act is worked fairly and compensation is given justly, it is a distinct step in the right direction. But it has many difficulties. Sometimes it is used as a means of blackmailing or of extortion; if the employer is a poor man, he may be unable to pay the compensation, and the difficulty of making small employers pay has restricted the act to a very moderate section of the working classes. And the most serious effect of the act is that small manufacturers and farmers are becoming increasingly unwilling to employ men more than they can possibly help, and it is becoming more and more difficult for middle-aged, infirm, and one-eyed men to get work at all.

This probably tells seriously on the question of the unemployed. Although trade is on the whole improving, we find from this cause that in some country districts the increase of able-bodied vagrants is most serious. Now, no evil can be so bad for workingmen as to be shut out of employment altogether. A farmer, or small contractor, with £300 to £500 of capital, might be absolutely ruined by an accident to a workman, over which he had no control; and, on the other hand, some small

employers so carry on their business that practically no workman could get compensation out of them, even though he had a perfect case, as there would be no available assets.

A very sad effect of the act is, as is well known, to make it very risky to give a day or two of charitable employment to some casual poor man, for fear of his having some slight accident and making a very exaggerated claim.

But in large industries there is a much brighter side. The employer can take better care of himself, and if the injured workman puts himself in the hands of a strong trade union, he usually gets a fair settlement without litigation; and employers have very seldom had to complain of unions supporting unreasonable or excessive demands. Where employers are wealthy, and trade unions are powerful, these questions, like many others, work smoothly, except in rare cases.

The chief problems of the act are: 1. The case of small employers who cannot or will not pay. 2. Obscure accidents, possibly complicated by previous bad health or injury. 3. Blackmailing. 4. Excessive awards. 5. The position of insurance companies.

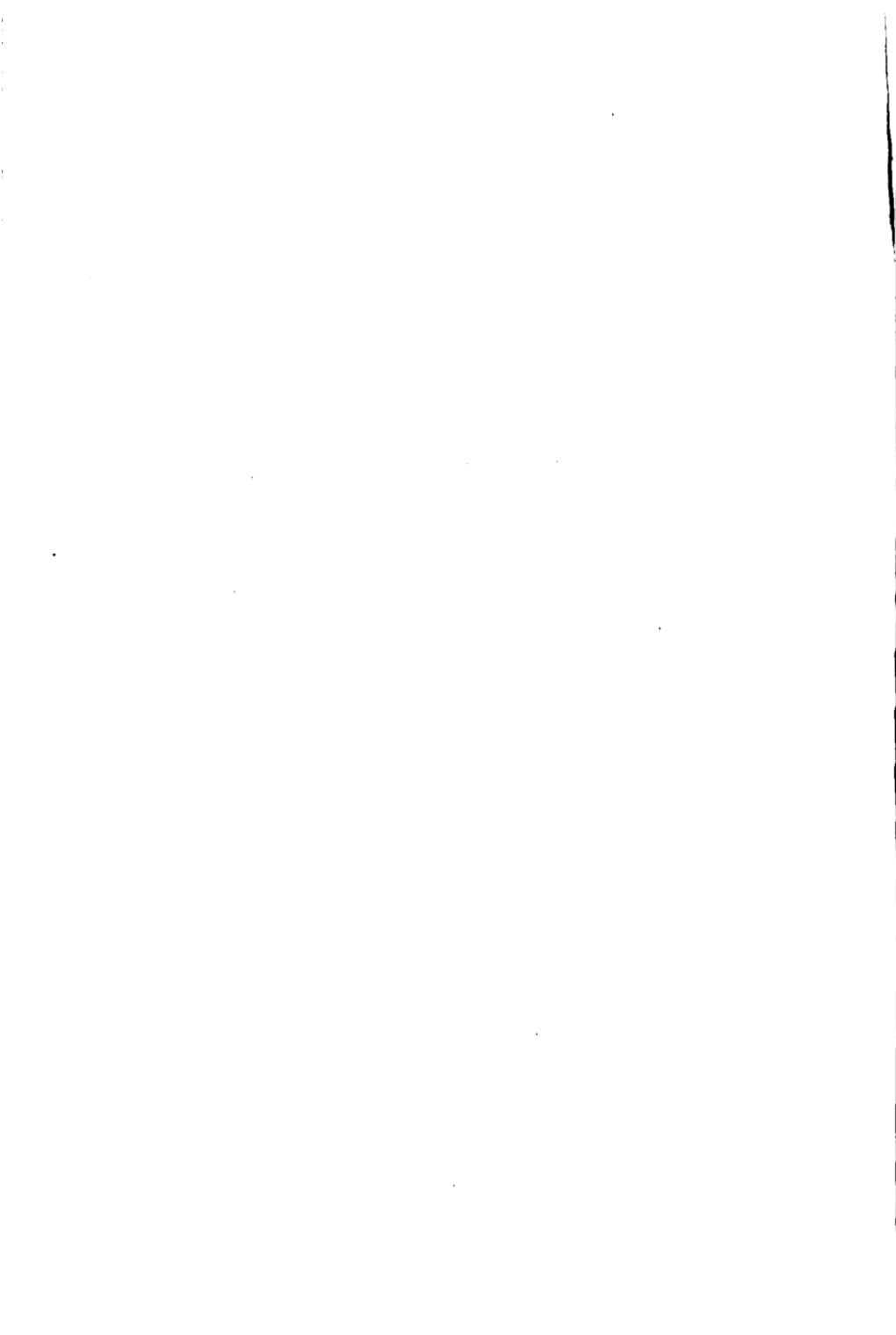
These last are complained of as being harsh in settlement, and unfavourable to small employers, while, on the other hand, the insurance companies complain that they are looked on as fair game for everybody.

Employers who cannot or will not pay are necessarily small men, and the insurance companies do not lay themselves out for the smaller class of business. Unless compelled by law, probably many of these small employers never would insure, even if the process were easier than it is, while in this as in any other class, compulsion is very unpopular. A small employer may insure his one or two regular men, but will often muddle on anyhow rather than employ an extra hand. His own interests may suffer, but he does not see it, and the man who might have got a job goes to swell the ranks of the unemployed.

As regards both large and small employers, much harm has been done by excessive awards. If an employer believes that in case of permanent injury the most he will have to pay will be £400, he will arrange his estimates accordingly, but if a soft-hearted judge awards some man £800 instead, all employers will put up their estimates, and thus will now and then lose orders, whereby their men lose employment.

Insurance companies necessarily fight their claims much more than an employer would do, and this makes them unpopular with the average workman, who dislikes fighting and litigation.

A remedy recommended by some of the labour leaders is government insurance. How the government would like this it is hard to say, but they could work it far more cheaply than insurance companies, and might fairly make a small profit, while a strong, uniform, impartial hand would be an enormous boon to both employers and workmen. The logical consequence would be compulsory insurance, but, in adopting this course, consideration would have to be given to the question of how far it discouraged casual employment.



STATE AND COMPULSORY INSURANCE

AFFIRMATIVE DISCUSSION

STATE INSURANCE FUNDS¹

The only way compensation benefits can be extended to all the excluded classes is by means of exclusive public or so-called "state" insurance or by state-aided or monopolistic mutual associations. We have no place in America for monopoly unless it be a public monopoly. In justice to the workers therefore it becomes necessary to advocate public or "state" insurance to the exclusion of all other kinds of insurance. A "competitive" state fund which stands on the same footing as private competing casualty insurance companies seems at first glance to be the very quintessence of fairness and squareness. In reality it is never possible to put a state fund on an equal footing with private casualty companies. The private companies will take only the cream of the business and leave to the state fund the task of carrying all the more costly risks that are hardest to acquire and are most subject to great catastrophes which wipe out reserves. Just why should the community bind itself to refrain from giving the best guaranteed insurance to its workers at the lowest possible cost? It is well known that the overwhelmingly greater part of the high cost of competitive insurance is due to the expenses of acquisition, renewal, and collection of premiums. The investment of reserve funds and the computation of actuarial liabilities also constitute very heavy charges. The costs of acquisition, renewal, collection of premiums and investment of funds are almost eliminated under an exclusive state fund in which every employer would be obliged to insure his employees. The premiums should be assessed and collected in the same way as taxes. In fact, there is no more reason for the interference of private companies in the insurance of compensation risks than in the assessing and collecting of taxes. All the enormous advantages

¹ From article, *Lacks in Workmen's Compensation*, by Royal Meeker, United States Commissioner of Labor Statistics. *American Labor Legislation Review*. 9 : 35-46. March, 1919.

in economy and universality are lost or diminished if private competing methods are permitted to enter. A competitive state fund may be very little less expensive than a private profit-seeking stock casualty company.

It is frequently argued that the insurance companies should be maintained because of their great contributions to human welfare in times past, and because of the enormous store of experience and wisdom which they have acquired and the vast vested interest which they have built up by their industry and integrity. I always go out of my way to call attention to the very great services performed by the insurance companies in the past. It is urged that an insurance company is different from a brewery or distillery in that it cannot, when there is no further need for it, be converted to any useful purpose, such as the manufacture of artificial ice, denatured alcohol or ginger pop. There is much force in this argument, but nothing like as much as in the case of the toll wagon roads of Pennsylvania which brought suit to enjoin the building and operation of the then newly conceived railroads on the ground that the monopoly charters of the toll-roads were violated by the charters granted to the railroad companies. The courts of Pennsylvania decided rightly against the toll-roads, holding that the progress of the community could not be held up by the monopolistic claims of an obsolete system of transportation. The same principle holds true in the realm of insurance. Community insurance is much cheaper and it reaches all, therefore it must and will supersede private profit-seeking competitive insurance. If exclusive state insurance cannot be obtained in any state, we should be ready to accept temporarily a competing state fund as one means of regulating and controlling private casualty companies.

STATE ACCIDENT INSURANCE IN AMERICA A DEMONSTRATED SUCCESS¹

During 1919 I was engaged in official investigations of the state insurance funds for workmen's compensation in the three states of Ohio, Pennsylvania and New York. In Ohio the fund is exclusive, while in Pennsylvania and New York commercial

¹ By Miles M. Dawson, Consulting Actuary, New York City. American Labor Legislation Review. 10 : 8-14. March, 1920.

insurance companies are permitted to compete against the state funds. The results of these investigations, therefore, provide an excellent basis for comparison of the records being made by the two types of public workmen's insurance—exclusive state funds and competitive state funds—with private profit-taking stock companies. The findings in all cases present conclusive evidence of the superiority of state funds, particularly the exclusive fund, over commercial insurance, from the viewpoint of the best interests of both the employer and the injured employee.

All three funds thus examined were found to be in sound and prosperous condition. Tested by correct and even stringent actuarial standards, they possess ample surplus over all liabilities, immediate and contingent. Compared with stock insurance companies, they result in savings of millions of dollars every year to employers, while at the same time providing most certain and liberal benefits to injured workers and their families. In low expense of management they set new records, not merely for themselves, but for all carriers of workmen's compensation insurance throughout the world.

Keep in mind the "acid test" fact that in the private profit-taking, stock insurance companies, doing a non-mutual business in this field, the ratio of management expenses to premiums constitutes a heavy burden on industry, running as high as 35 to 40 per cent. Compared with that, Norway's 10 per cent and Sweden's 17 per cent appear economical indeed. But state funds in America are doing vastly better—even better than the most sanguine of us so confidently predicted ten years ago. In Washington, where the first state fund in this country was established, the proportion of premium receipts taken for management expenses dropped lower and lower until it beat Norway's record by more than half. The Oregon state fund, established considerably later, already has this proportion of expense down to 7½ per cent. My official investigation of the three state funds with which we are here specially concerned disclosed a still greater measure of success in Ohio and very low ratios even when the state fund is in competition with insurance companies.

How great the economies of the state funds were found to be, as contrasted with the wastefulness of commercial companies (whose commissions to agents alone amount to 17½ per cent

of the premiums collected) may be seen at a glance from the following:

	Ratio of management expense to premiums ¹
Commercial Stock Insurance Companies....	35-40%
Pennsylvania state fund (competitive).....	9 %
New York state fund (competitive).....	6.2 %
Ohio state fund (exclusive).....	1.625 %

The marvelous record in Ohio, where the expense rate in the state fund is only about one-twentieth of the expense rate in stock insurance companies, thus gives first place in economy of management to the *exclusive* state fund.

As to the net cost of insurance to policy-holders, I found that the exclusive fund in Ohio is doing the best for industry in average savings to insured employers as well as in low expense of management. The New York state fund saves policy-holders 29 per cent of the premiums they would have to pay commercial insurance companies; the saving in the Pennsylvania fund is 19 per cent (in one year $14\frac{1}{2}$ per cent) for coal mines and $23\frac{1}{2}$ per cent for other employers; the Ohio fund, where administrative expenses are paid out of the state treasury instead of being taken from premium receipts, makes the very large saving to industry of at least 35 per cent. *These figures represent total savings to industry of many millions of dollars every year.*

But the aggregate savings have been materially larger; additional savings achieved by the state funds are found in the ample surplus carried. These will make possible still lower costs, together with larger benefits, in future. Indeed, any of these funds could, from its surplus, return to its policy-holders an extra dividend of 5 per cent on all the premiums received (computed at the usual casualty insurance company rates). Or, if kept in the surplus as a "stabilizer," these sums work quite as much to the policy-holders' advantage as if paid out to them as dividends; they are a true saving.

The remarkably creditable showing on 1918 business in all

¹ The premiums are here taken at stock insurance company rates; the actual rates of the state funds were very materially lower.

three state funds is further indicated by comparing their *combined losses and expenses* with those of the stock companies. Based on the usual casualty insurance company premiums, the losses and expenses together in the New York state fund were only 47 per cent as against 87 per cent in the commercial stock companies; in the Pennsylvania fund 55.4 per cent for coal mines and 50.1 per cent for other industries; in the Ohio fund 65 per cent. It should be explained here that the Ohio cost figures are estimates. Since no stock companies are permitted to carry this business in Ohio, their rates for purposes of comparison in that state are taken, by the actuarial formula regularly used in such computation, to be in the ratio to net claims cost as 100 is to 65. But even with the most conservative figuring the advantages of the state fund, in the matter of bare costs, are strikingly apparent.

The reserves of all three funds were found to be unquestionably adequate, with the soundest actuarial principles strictly adhered to, and with ample provisions for all possible contingencies, including catastrophes. The assets of each fund are safely and profitably invested in high-class public securities. All uninvested funds are intact. So the financial condition of these public insurance funds may most conservatively be said to be at least as strong and unassailable as that of any class of insurance companies.

While the results of these investigations reveal great advantages of the state fund plan, still I discovered in the conduct of each fund an opportunity for constructive suggestions. These relate not at all to the integrity and benefits of the state funds, nor even to the economy of their management, but entirely to the greatest possible dispatch and efficiency in making full and just payments to injured workers who are entitled to them.

It is not that the state funds have done worse in this respect than the stock insurance companies, because they really have done better. It is that any bad features of administration should be weeded out, if discovered, and every effort made to attain the maximum of excellence.

Great economies in expense of management were expected from the state funds; in actual practice, as we have seen, they have been extraordinary. But there is the danger that economy may be carried to such unnecessary extremes that delay in making awards may result, as in Ohio to some extent; or, as in

New York, important features of administration—such as statistical, accounting, pay-roll auditing, or detecting and rooting out, if not preventing, evils of "holding up" claimants—may suffer because salaries have been kept too low. Traces, too, were found of bureaucratic flaws on the part of some officials. Such evidences of slackness, however, were not accompanied by any proof that in consequence the results were poorer with respect to net cost to employers or net returns to injured workmen and their families; instead *the records of the state funds along these lines were consistently better than those of the commercial insurance companies.*

A word of caution and explanation as to "direct settlements" appears necessary in this connection.

Our investigation of the New York state fund disclosed the evil of frequent and large underpayments as the result of an amendment to the workmen's compensation law which was in effect about two years, permitting settlements to be made by the insurance carriers directly with the injured claimants. *The chief offenders in such "paring down" of claims below just compensation under the law, were the commercial insurance companies.* The deputy commissioner in charge of workmen's compensation testified that such underpayments on the part of insurance companies and self-insurers has deprived injured employees and their dependents of about \$5,700,000!

The wonder is not that some evils existed but that they should be so few when the state fund is still subjected to the serious disadvantage of unscientific and unscrupulous competition by the stock insurance companies. Yet, during the investigation and since, extensive and even sensational publicity was given to the \$50,000 lost to claimants by these practices under the state fund, while very little was said in the "news" about the more than \$5,000,000 extracted by the insurance companies.

At any rate the "direct settlement" amendment in New York is now, happily, repealed.

Altogether, the state funds for workmen's compensation insurance are shown by my investigation to be extraordinarily successful. They are financially sound; they are operated on the strictest actuarial principles; they reduce management expenses to a minimum. They have made steady progress, even under competitive conditions, for in Pennsylvania the premium receipts of the fund have increased from \$804,234 in 1916, to

\$2,456,062 in 1918, and in New York from \$689,764 in the last six months of 1914, to \$1,867,841 in the last six months of 1918. They permit increasingly liberal benefits for injured workers and their families. They result in enormous savings to industry. In New York, for instance, employers who are insured in the state fund have been saved about \$4,000,000 in four and a half years over and above what it would have cost had the same insurance been carried in stock insurance companies; and if all employers in this state insured by stock companies had placed their insurance with the state fund they would have saved during the same period the very large sum of \$18,000,000—which, of course, would have represented an even larger saving to the consuming public. In Ohio the exclusive state fund has saved insured employers at least \$15,000,000.

Why, then, should any employer still resist adoption of insurance exclusively in state funds? Perhaps, to some extent, because of "many men, many minds." Partly, also, because of the specious but active propaganda of an interested opposition that the public control of this essentially public function is an "opening wedge" to state monopolization of businesses that are private. There may even be some distrust as to the efficiency of governmental agencies in conducting such an enterprise; which, however, in the case of the state funds has been found wholly without justification. But what holding back still remains on the part of employers might be ascribed largely to the fixed antagonism of some manufacturers' associations to legislative measures for the improvement of industrial conditions—a blind opposition apparent today no less than ten years ago when it was unsuccessfully directed against the enactment of workmen's compensation laws. And then there is close relationship, business and otherwise, between many employers and the stock insurance companies.

It is to be desired, however, that in certain phases of management of state funds, especially in claim adjustments and accident prevention, there should be greater participation of representatives of insured employers and insured workmen.

Most important of all, *these investigations show the superiority of state funds over commercial insurance companies and of the exclusive state fund, as in Ohio, over all other carriers.* That is the finding of most immediate and direct interest to employers, employees and the public.

PROBLEMS PECULIAR TO COMPETITIVE SYSTEM¹

Certain problems confront commissions in competitive insurance states which do not exist under an exclusive state fund system. In the last analysis a comparison of different types of insurance carriers resolves itself into a comparison of exclusive with competitive systems. From an administrative standpoint a competitive state fund is not much different from a private insurance company. Under an exclusive fund system the commission *does* things. There are no technicalities to nurse, no interminable squabbles, no long delays waiting for the insurance companies to report on a case, no wasting of the commission's time in long drawn out hearings. The commission simply ascertains the facts from reports and investigations and then awards compensation. In a competitive state the commission, instead of doing things, sees to it that somebody else does the work. The commission supervises, follows up, and checks up the insurance carriers who are supposed to make the payments. It takes almost as much time and costs as much money and requires as many employees to do the follow-up work, if it is to be done adequately, as it does to do the work originally.

Under a competitive system the commissions are inclined to govern their administrative practices and to propose statutory amendments to suit the convenience of insurance carriers and employers rather than the interests of the injured workers. We are inclined to forget that a compensation law is a *workmen's* compensation law. It is not an employers' compensation law, nor a physicians' compensation law, nor an insurance companies' compensation law, nor a compensation law for the benefit of those who administer the law. It is for the employee, and the interests of everyone else should be subordinated. Yet these questions continue to crop out, "How will this affect the insurance company? If we don't have a definite provision in the law, we can't do this or that." Under the exclusive state fund it does not make any difference. Rates can be increased or decreased to meet contingencies as they arise and nobody is seriously affected. As an illustration, Oregon this year increased its benefits 30 per cent. This was a flat increase, retro-

¹ From Workmen's Compensation and Social Insurance, by Carl Hookstadt. Monthly Labor Review. 11 : 1255-78. December, 1920.

active, and applied to all persons receiving compensation benefits at the time. The additional cost was met, I believe, out of the surplus of the fund. But had there been no surplus the commission might have increased its rates. This could not be done under a competitive system, because the premiums were collected on the basis of the former benefits.

Again, under the competitive plan you have a dual system of administration. In an exclusive fund state, accidents are reported to the commission only; under a competitive system, accidents are reported by the employer to the insurance company and also to the commission. Furthermore, under the latter system both the insurance company and the commission must receive and investigate compensation claims, which results in unnecessary duplication of effort. In discussing the question of getting prompt and uniform accident reports, compensation commissioners argue somewhat as follows: "The insurance company wants its accident report first. We don't need it right away. We can't expect the employer to make reports to two different bodies or at two different times; therefore, we don't require it." Again, you see it is the idea of serving the employer or the insurance company. The interests of the workman are subordinated. These problems—these difficulties of administration—do not exist under an exclusive state fund system. While the exclusive state fund systems have their problems, which they have by no means solved, they do not have this additional insurance problem which the competitive states have.

State's Assumption of Liability

Another point is that in some of the exclusive fund states, especially the Canadian Provinces and Washington, the state assumes responsibility for compensation payments in case of accident. If an accident occurs within the industry covered by the law, the state pays. It gets its premium later or in advance. The workman does not lose out because the employer has not paid his premium. Of course, in most states, if the employer has not insured, the employee can bring suit for damages, but in many cases a judgment is valueless.

Public-service Ideal

Another thing which impressed me was the public-service ideal that I found in so many of the states. We may talk of the evils of politics in state administration, but nevertheless one

finds a large proportion of state officials and employees imbued with a high sense of public service. The commissions may not always do their work properly; they may be inefficient —some of them are; but, after all, there is an ideal to follow, to serve one's fellow man, to serve the employee. I was impressed with that, in spite of all the inefficiencies, or many of the inefficiencies, I found.

STATE FUND VS. CASUALTY INSURANCE COMPANIES¹

The exclusion of the stock companies may be urged principally on the ground of economy. There is no economic justification for commissions and profits on workmen's compensation insurance. This insurance is made compulsory by law, and the justification for agents' or brokers' commissions, which exists in connection with voluntary insurance, as the price paid for the needed function of distribution of the insurance commodity, does not hold in the case of workmen's compensation insurance. There is a growing conviction that no one ought to be permitted to make money out of the necessity of the employer and the misfortune of the employee. The moneys which employers are required by law to contribute for the relief of injured workmen and their dependents should not be subject to any toll of commissions or profits. The payment of commissions and profits on workmen's compensation insurance, lacking as it does all economic justification, must be regarded as sheer waste. This waste is cut out, and the cost of insurance is reduced to a minimum when it is carried in the state fund.

The wastefulness of stock company insurance and the economy of state fund insurance can be seen clearly when the compensation premium is viewed in the light of a tax. That is what it is. A tax is simply a compulsory levy for public objects. The premium paid by an employer for workmen's compensation insurance is in the nature of a compulsory levy for the purpose of indemnifying injured workers and thus serving the ends of social justice. When this premium is paid to a stock company it

¹ By Honorable F. Spencer Baldwin, Manager of the New York State Insurance Fund. From argument before the Senate Judiciary Committee in favor of eliminating companies organized for profit from doing business under the provisions of the Workmen's Compensation Law. New York State Federation of Labor. 15p. 1918.

is loaded with a heavy sur-tax, to provide agents' commissions and stockholders' profits; when it is paid to the state fund this sur-tax is eliminated. The natural and economical method of collecting this tax is through the direct agency of the state, precisely as in the case of other taxes. There is no sound reason why the collection of this particular tax should be farmed out to private companies, which, in the role of tax-collectors, levy upon employers an over-tax, to provide commissions for their agents and profits for their stockholders.

In fact the administration of workmen's compensation insurance through the agency of companies operating for profit is analogous to the old discarded system of farming out taxes in general. It is time to stop the business of farming out the collection of workmen's compensation premiums with the inevitable attendant waste and abuse.

The competitive plan of workmen's compensation insurance now in force in this state, under which employers are permitted to choose freely between stock, mutual, self, and state insurance, has broken down in practice. This plan looks attractive as a theoretical proposition, for it promises to secure the lowest rates and the best service to employers, to subject each form of insurance to the test of fair trial on its merits and to lead to the survival of the fittest. In practice, however, the competitive plan has failed to produce these desired results. It fails to protect employers in general against high cost and unsatisfactory service; it does not furnish a fair test of the economy and efficiency of the competing methods of insurance, and it tends to promote the survival of the unfit.

The breakdown of the competitive plan is due primarily to the impossibility of securing really fair and equal competition between the state fund and the stock companies. The chief difficulty here is the tremendous competitive advantage enjoyed by the stock companies in the control of the field which they exercise through their agency force, or business-getting organization. In New York State there are about twelve thousand insurance agents and brokers. These field representatives of the old line companies are constantly soliciting employers insured in the state fund, in the effort to persuade them to transfer their insurance to some one of the companies. Through this medium the companies have direct personal access to employers throughout the state, while the state fund must depend mainly on

correspondence to get its case before an employer. It would not equalize the competitive opportunity of the state fund to permit it to employ agents, for the thousands of brokers and agents who serve the companies operate virtually as a unit against the state fund, and the latter could never build up an agency force large enough to compete effectively with the enormous field staff of the companies. The employment of agents on an extensive scale by the state fund would, moreover, be a violation of the fundamental purpose of its creation, which is to furnish insurance to employers at bare cost exclusive of any acquisition expense.

The handicap of the state fund, in this respect, would not be so serious if the field representatives of the companies made a practice of presenting their case intelligently, honestly and fairly. There seems, however, to be no standard of integrity, responsibility or decency on the part of the fraternity of insurance brokers and agents in their competitive tactics toward the state fund. In general, they are absolutely unscrupulous and shameless in their misrepresentations concerning the state fund. Although the state fund offers complete security at minimum cost, employers are led to believe, by gross misstatements constantly circulated by insurance agents and brokers, that state fund insurance is both insecure and expensive. Employers are told that the state fund maintains no reserves; that its surplus is exhausted; that it is insolvent or about to become insolvent; that its policyholders are leaving it; that its policy affords no protection; that it gives no service; that it charges the same rates as the old line companies; that its policyholders are liable to assessment; that its manager has resigned, and so on, *ad libitum*.

It ought to be a misdemeanor to apply characterizations of this sort to the state fund. The state fund is a necessary institution, a department of the state government, administered by the State Industrial Commission. No one of the private companies would dare to print with reference to a competing company the abusive matter which has been circulated freely about the state fund. There appears to be no way under the law of penalizing this sort of offense when committed against the state fund. The circulation of such abusive misrepresentations as have been cited constitutes in itself an indictment of the ethical standards of the officials of the companies who are responsible for competitive tactics of this low order.

The extent of the waste involved in the payment of commissions and profits upon workmen's compensation insurance is staggeringly large. It may be measured by the difference between the expense ratio of the stock companies and that of the state fund. The expense ratio of the former on the business of 1916 was 38.6 per cent; that of the state fund was 9.2 per cent. The difference in favor of the state fund is approximately 30 per cent. The amount of saving that could be effected by the elimination of the stock companies may be estimated approximately as 30 per cent of their premium income. That is, if the insurance now carried by the stock companies were transferred to the state fund, the 30 per cent of the premiums which now goes for unnecessary overhead, chiefly acquisition cost, would be saved. The figure for premiums received by the stock companies on workmen's compensation insurance in this state for 1917 has not yet been given out by the State Insurance Department, but the amount may be computed roughly on the basis of the figures for 1916. The amount of premiums received by the stock companies in 1916 on workmen's compensation business was \$11,275,049.10. If we allow an addition of 20 per cent for the rate increase in 1917, we get \$13,530,058 as the amount of premiums received in that year. Taking 30 per cent of this amount, we have over \$4,000,000, as the total of the saving that could be effected by excluding the stock companies from this field. The total waste during the first four years under the Workmen's Compensation Law in consequence of stock company participation in this business may be set down as not less than \$12,000,000.

Let me show the comparative economy of stock and state fund insurance in another way. Out of every dollar of a stock company premium, 40 cents approximately must go for expenses, leaving 60 cents available for losses. Of the state fund premium, less than 10 cents on a dollar is needed for expenses, leaving 90 cents available for losses. On this basis, it costs the stock companies about 65 cents to distribute a dollar in compensation, while it costs the state fund about 10 cents to pay one dollar in benefits.

The saving that would be effected through the elimination of commissions and profits, which has been emphasized in the discussion thus far, is not the only economy to be achieved through the exclusion of the stock companies. In addition to the negative saving on this account, there is also the positive economy through the substitution of a single centralized and coordinated

governmental control for the present competitive system. This economy would be accomplished through the avoidance of needless duplication of work and expense. At present there are over forty companies in the field, each maintaining its own independent organization for the purposes of safety inspection, claim investigation and payroll auditing. Taking the matter of payroll auditing, for example. Each company has its staff of payroll auditors, who travel throughout the state, crossing each other's routes, visiting regularly the same cities and towns and the same buildings. The waste thus entailed is obviously great. It is analogous to the waste that would be involved in a competitive postal system. This waste, which has been illustrated in the case of the payroll auditing, extends to the inspection and claim service. In this connection, it may be pointed out that the centralization of workmen's compensation insurance in the state fund would make it possible to establish better coordination and cooperation between this service and the work of the Inspection Bureau of the Labor Department, on the one hand, and of the Compensation Department, on the other, as these three branches of service are most intimately related.

In this connection, let me point out further that there are various characteristics of this business of workmen's compensation insurance which combine to render it particularly adapted to exclusive governmental administration. It meets the tests or standards which have been generally recognized by economists as determining the adaptability of an enterprise to state management. An English economist, W. S. Jevons, laid down four principles to determine this question, and these have been accepted by later writers. The first is: "Where numberless widespread operations can only be evenly connected, united, and coordinated in a single all-extensive government system." The business of workmen's compensation insurance is of this character, as has been pointed out particularly with reference to the matters of payroll auditing, claim investigation and safety inspection.

The second condition is: "Where the operations possess an invariable routine-like character." This also holds true of workmen's compensation insurance. When the administrative machinery once installed and put in operation, the business follows a well established routine. There is little opportunity for initiative, innovation and experimentation.

The third test is: "Where they are performed under the

public eye, or for the service of individuals who will immediately detect and expose any failure or laxity." The business of workmen's compensation insurance conforms to this requirement in a conspicuous degree. Its service is performed under the watchful eyes of employers and employees. There is no opportunity to cover up wastefulness or inefficiency.

The final criterion is: "Where there is but little capital expenditure, so that each year's revenue and expense account shall represent, with sufficient accuracy, the real commercial conditions of development." Here again the business under consideration satisfies the condition laid down as a requisite for successful government management. It calls for comparatively small investment or expenditure of capital. The mutual companies with no capital investment whatever are now competing successfully in this field.

Attention should be called to two other peculiarities of workmen's compensation insurance, which furnish additional reasons for state administration. The first is the compulsory nature of this insurance. In the case of other forms of insurance, such as life, fire and accident, the individual is free to insure or not to insure, but in the matter of compensation insurance the employer has no choice. This consideration necessitates the maintenance of a state insurance fund by any state having a compulsory compensation law. In short, the state that enacts a compulsory compensation law is obliged to go into the business of insurance under the law, and, this being so, it would seem to be sound public policy to exclude profit-taking companies from this field and secure the full economies attainable under centralized governmental administration.

The second peculiarity is the collective character of workmen's compensation insurance—to use a somewhat cumbersome term. It is designed to serve a social purpose. Life insurance, for example, is a purely individual matter. The same individual pays the premium and gets the benefit for himself, or for his family. In the case of workmen's compensation insurance, the benefit accrues not to the person who pays the premium, but to others. The premiums paid by the employers are distributed to injured employees and their dependents; the benefit of this insurance accrues not to the individual insurer or his family, but to the community at large. In short, workmen's compensation insurance is one form of social insurance, and,

as such, is differentiated from other forms of insurance carried by employers. This consideration, like the preceding, points to the advisability of state administration.

Thus far the proposal to exclude the stock companies from the field of workmen's compensation has been urged mainly on the ground of economy. The argument may be reinforced by considerations of a social and ethical character, which carry very great weight. The stock companies, with a few honorable exceptions, have small conception of the social opportunity and responsibility connected with the function of compensation insurance carrier. They regard themselves, in general, merely as agencies for fighting claims and paying damages. They cannot divorce themselves from the ideas, practices and traditions of the old liability regime. The function of disbursing compensation under a law providing payments that may run even for generations involves a great social trust, which can hardly be vested with safety in commercial companies operating for profit. The workmen's compensation laws were designed to serve the ends of social justice. No element should be allowed any part in the administration of these laws which does not square to the fullest extent with the requirements of social justice. It is to be feared that, so long as the element of profit taking is tolerated here, the ends of social justice will be served but imperfectly.

It has been urged against the proposal under consideration that employers themselves are opposed to the exclusion of the stock companies, as many of them prefer this form of insurance. This argument should carry no weight whatever. As a matter of fact employers, in general, are not sufficiently well informed concerning the comparative merits of the state fund and stock company insurance to understand their true interests in this matter. I do not doubt that it would be possible to bring to Albany trainloads of employers to protest against this proposed legislation. Indeed, I have seen in another state the spectacle of a large delegation of employers brought to the capitol to assist the casualty companies in defeating legislation that would have deprived them of the privilege of exploiting employers under the workmen's compensation law. By reason of business or personal relations with the companies or brokers, many employers stand ready at any time to help the insurance men pull their legislative chestnuts out of the fire. It is a case of give and take in the course of business.

Employers at large ought to be protected against this form of exploitation. The alleged preferences of individual employers should not be allowed to stand in the way of the elimination of the enormous waste involved in the participation of stock companies in the business of workmen's compensation insurance.

ADVENTURE IN STATE INSURANCE¹

It was in the insurance literature of New Zealand that there was first found an idea which seemed to be capable of being whipped into practical form for meeting the requirements of insurance under a compulsory compensation insurance act. We borrowed the idea from New Zealand, but we dressed it in garments better suited to the industrial and political situation in California and presented the measure to the legislature of 1913. The bill passed both houses with large majorities, was signed by the governor, and went into effect January 1, 1914.

An idea incorporated in the fund was to create a model insurance carrier which other insurance carriers in competition with it would, by the logic of circumstances, be required closely to approximate on pain of having the business go to the state fund; and it required about four months of experience under the new act to enable them to appreciate the force of the argument. It was intended also that the policy of the fund should be influenced by the moralities involved in each situation, rather than by the legalities alone; that is, it was purposed to make the fund a warm-blooded financial institution rather than a cold-blooded one; and this policy has been consistently pursued ever since. It was also determined that as soon as the fund became strong enough its competition with private insurance carriers should become wholly fair; it should pay the same taxes that other insurance carriers were required to pay, and it should derive no direct advantage from the state's other activities not shareable by all other insurance carriers in competition with it in the compensation field.

The following were the chief arguments advanced against the adoption of the measure by the legislature:

I. That the insurance field belonged to private enterprise.

The proponents of the measure dissented from this proposi-

¹ By A. J. Pillsbury, Chairman of the Industrial Accident Commission of California. *American Economic Review*, 9 : 681-92. December, 1919.

tion and held insurance to be a public service, a service which the state could directly perform, in whole or in part, to the exclusion of all other carriers or in competition with them, for the reason that the public welfare, which the state was created to protect, was vitally involved in the institution of compensation insurance, at least. It was held that the state might delegate such a service to a private or mutual enterprise or might discharge the obligation itself; that the issue was not academic, but practical, and that the decision should depend upon which plan is likely to work the better. It was then, and still is, the judgment of the writer of this article that the competitive plan would work best for employers, best for employees, and the best for the economic interests of the state, as well as best for the state fund, which needs competition to keep it progressive in its efforts to render the best possible service at a reasonable cost for the performance of such service.

2. It was contended that politics must inevitably get into the management of the fund, and so hopelessly injure it.

It cannot be denied that there was, and always has been, some danger of such an eventuality, but for more than five years not one appointment to a position within the State Compensation Insurance Fund has been made through political consideration. The fund has not only kept out of politics, but it has kept politics out of the fund, which has been to the very great advantage of the fund as well as of the politics of the state.

Furthermore, all of the employees of the fund, except the manager and the heads of departments, are employed through a vigorous and rigorous state civil service law, which is entirely non-partisan in its operation.

3. That the state fund would get the bad risks and the insurance companies the good ones.

That there is such a tendency wherever the state enters the insurance field in competition with other insurance carriers is true enough, but the state fund in California has resisted this tendency and has put forth its energies to aid the bad risks in becoming good risks before they are given insurance coverage, and with a high degree of success. The fact that the loss ratio of the fund is lower than that of the average for other insurance carriers shows that it has selected its risks with as high a degree of underwriting judgment as other insurance

carriers and that it has not had more than its just quota of bad risks to carry.

4. It was dogmatically declared that private enterprise can do business cheaper than the state.

The writer is inclined to agree with the proposition that private enterprise *can* do business more cheaply than the state, but that it will not do it as cheaply as the state if it can avoid it.

The insurance carriers in competition with the fund have stoutly claimed that they cannot do the business of insurance with an overhead expense of less than 35 per cent of the premiums received; and, during the last year and a half, they have so raised their rates as to allow 40 per cent for this purpose. The cost of the state fund's doing business has only once exceeded 15 per cent and for the year 1918 it was a trifle less than 12 per cent, or, to be exact, 11.79 per cent of the net premiums received. In other words, the state fund is transacting business at one-third the cost which the private insurance carriers set aside for that purpose. Yet the only part of the expense of the fund which the state bears is that the state pays the salaries of the industrial accident commissioners, who sit as a board of directors for directing the general policy of the fund, and to this task the commission does not devote more than two hours per week. That is absolutely all the benefit or advantage the state fund gets by reason of state aid, and that is negligible. The fund now pays the same taxes that other insurance carriers pay, pays for all its own labor and rent and every other element of cost in doing an insurance business; but it does the business economically, wines and dines no legislators, and does not seek to hire employers to give it their business through any form of hospitality or entertainment. The writer has all along felt that if private insurance carriers would have a good housecleaning and a reorganization of their methods of doing business they could stay in the field in competition with the state fund and make a fair rate of profit on their investment.

The fund must invest the money in its control as savings banks invest their funds; the private insurance carriers may invest "other people's money" in their possession as commercial banks invest, or as promoters, for that matter, and so make a larger return than the fund can upon its investments. Private insurance carriers may hire their labor in the open labor market

and may work their employees as many hours as they can induce them to work. The fund must secure its labor from the State Civil Service Commission and pay salaries comparable to those paid in other departments of the state service.

5. It was contended that it is unjust that three commissioners, whose duty it is to sit in judgment over controversies between injured persons and insurance carriers, should also sit as a board of directors in the operation of an insurance concern in competition with such other private insurance carriers.

The commission has always admitted that there is just here an academic inconsistency in the act, but there was no good way of avoiding the difficulty. If the industrial accident commissioners were minded to be unjust and to discriminate against private insurance carriers and in favor of a state fund they could do this just as readily without regard to whether the commission controlled the fund or whether its control were placed wherever else it might be placed—in the hands of a separate commission, the state insurance commissioner or the manager of the fund alone—and yet the opportunities so to discriminate would be very few. All of the decisions of the commission are open, and discriminations could not be practiced without being called to public attention, a deserved condemnation being visited upon the heads of the commissioners. In default of proof of such discrimination—and no such proof has ever been forthcoming in spite of frequent challenges to produce it—the issue becomes what Abraham Lincoln properly characterized as "a pernicious abstraction." Our manager of the fund is so fully persuaded that there is no discrimination against other insurance carriers and in favor of the fund that he feels that the commission leans over backward, and perhaps it does.

The commissioners do consciously discriminate in many instances, but always against the fund. This is done where the legalities would require the denial of compensation if the insurance carrier were a stock company, insistent that it should be required to pay only what the law required it to pay, but where the commissioners believe that the moralities require the payments to be made. As long as government by law stands there will probably be a broad difference between justice as measured by the legalities and as measured by the moralities. Legalities must deal with common conditions and can seldom adjust themselves to specific cases. The moralities may deal

with specific cases which do not fall into line with the law of average, and all insurance is based upon the law of average. The commission does this with good conscience, feeling that if by so doing the employer is taxed a little more for his premiums the burden is offset many times over by economies practiced by the management in the conduct of the fund. In short, as hereinbefore suggested, the difference between the policy of the fund and that of many stock companies consists in this: that the fund is made a warm-blooded financial institution, whereas those who are in the insurance field for the profit they can make out of it tend to make their concerns cold-blooded financial institutions; and in the practical operation of these different tendencies differing results of considerable importance to humanity are attained. Furthermore, no board or commission not in daily contact with the administration of a compensation law can know how to make an insurance carrier respond to the requirements of such a law.

The State Compensation Insurance Fund of California was ready for business on January 1, 1914, and it was gotten ready by the then Industrial Accident Board, operating under the Roseberry law, and by the expenditure of something less than \$5,000 in equipping a business office and employing a manager and a few assistants for about two months so that the fund might be ready when the new compensation, insurance and safety act went into effect. This expenditure covers absolutely the only cost that the fund has occasioned the state except the use of the \$100,000 capital provided by the act of the legislature of 1913.

The first prerequisite was to devise premium rates to be charged employers under the new act, but it was not within the scope of human knowledge to know in advance what the premium rates should be for the ensuing year. A basis of information and experience did not exist. Accordingly, the fund adopted the rates charged by the liability insurance companies, based upon such experience in this and other countries as could be made available, making sure to collect enough in premiums to cover the payments necessary to be made; and the fund has ever since charged the same rates that other insurance carriers have charged, these being the minimum rates fixed by the state insurance commissioner, except that the other carriers, at the beginning of 1918, increased their rates 5 per cent, which

increase the fund did not meet. It will probably be ten years before a volume of experience in rates can be accumulated that will justify making premium rates anything more than tentative, but any good bookkeeper can tell at the end of the year what the rates should have been. For this reason it has been the policy of the fund to make its policies "participating," as insurance men call them; that is, at the end of each year, the policy holders participate in any savings that have been effected in the course of the year's business in the form of dividends; and "dividends," in insurance, mean that the insurer has paid that much too much for his insurance. At the end of each year the state fund has returned to the policy holders 15 per cent of the premiums received on an average, some more, some less, as the experience in each classification warranted.

The legislature of 1915 enacted a reserve law requiring insurance companies to retain, undistributed to their stockholders, a certain percentage of their premiums intact for three years before releasing them to their surplus accounts. Upon the expiration of this term the fund returned to its policy holders of 1914, 20 per cent additional dividends, besides the 15 per cent returned at the end of that year, making 35 per cent in all on the premiums paid during that year. The next year there was paid a second dividend to the policy holders of 1915 of 18 per cent, making 33 per cent of the premiums paid during that year; and it is anticipated that the fund will go right on making its regular 15 per cent return, if not more, at the end of each year, and, three and a half years after, a second dividend of 15 to 25 per cent, owing to what the loss experience and the cost experience have been. Now that, as will be seen further on, the capitalization of the fund has been made adequate, the dividends repaid to policy holders should be greatly increased unless restricted by an exceptionally unfavorable loss experience. It is almost needless to say that the competing insurance carriers have made no such returns. In this way those who insure with the state fund get their insurance at exactly what it does cost the state to do the insuring, no more and no less. More than this they have no right to demand and less than this they have no obligation to put up with. The dividends so repaid by the fund during the first five years of its existence aggregated \$790,000.

It may be of interest to note the growth of the business of the fund year by year. For 1914, the premiums received amounted in the aggregate to \$547,161.24; for 1915, \$655,676.55; for 1916, \$928,281.15; for 1917, \$1,373,791.54; for 1918, \$2,459,086.08. The prospects are that the premium receipts of the fund for the current year, 1919, will equal or exceed three millions.

The overhead cost of doing business for the year 1914 was 12.65 per cent; for the year 1915, it was 15.48 per cent; for 1916, 14.05 per cent; for 1917, 14.76 per cent; for 1918, 11.79 per cent; or an average of 13.75 per cent for the five years of the existence of the fund.

It was declared in the act that: "said Fund shall, after a reasonable time during which it may establish a business, be fairly competitive with other insurance carriers and it is the intent of the Legislature that said Fund shall ultimately become neither more nor less than self-supporting." The time has come when this ultimate ideal is realizable. The \$100,000 capital with which the fund was supplied by the state was inadequate to enable the fund to carry the largest risks offered it or to be certain of not being wholly wiped out by some catastrophe hazard. Therefore, if the fund was to perform the service reasonably required of it by the state it was necessary for it largely to augment its capital and surplus. In short, it needed a round million dollars as an anchor to windward to justify full faith and credit in its ability to pay all losses and to carry the largest risks the employers of the state had to offer. It was useless to appeal to the legislature for any such sum of money and the only other way to obtain it was to keep back from the policy holders a share of the excess premiums paid and interest earned. This was done and yet, in spite of returning the \$790,000 to policy holders above referred to, and in spite of the active competition of many other insurance carriers, the State Insurance Fund of California has accumulated a surplus so rapidly that the commissioners are almost ashamed to let policy holders know how profitable the enterprise has been as a money-making institution.

On the 31st day of December, the fund had a net surplus, not including the \$100,000 capital given it by the state, amounting to \$1,038,958.96, without a dollar of indebtedness chargeable against it; and this accumulation has been made in five years, charging the same rates or lower rates than other insurance carriers

charged and, for a portion of the time at least, bearing all of the tax burdens that other insurance carriers had to bear. Meanwhile, the \$100,000 original capital has never been touched, except that it was placed at about 4½ per cent interest. The average profit per year was \$207,791.79, and the ratio of the average profit to the capital was, in round numbers, 207 per cent per annum, notwithstanding the return of \$790,000 to the policy holders above referred to.

If no dividends had been declared or paid to the policy holders the accumulated surplus would then have been \$1,690,-191.54, the average annual profit for the five-year period would have been \$338,038.51, and the ratio of profit to the capital invested would have been 338 per cent per annum. It should be noted just here that whatever the other insurance carriers did with their surplus they did not return any of it to the policy holders and it is not believed that many of them have much of it to their credit at this time.

Again, assuming that the state fund had been started as a stock insurance corporation, and that the stock had paid regular annual dividends of 6 per cent and so remained at par, the 6 per cent dividend to stockholders would have taken \$30,000 from the heretofore mentioned surplus and accumulation; but, deducting this and proposing to make a stock dividend to the shareholders for the distribution of the accumulation, the shares would then have had a market value of \$1,108, instead of a par value of \$100. In the expressive language of financing circles, this would be known as "cutting a melon," and no doubt the melon would have been relished by the shareholders; but, assuming that the fund, conducted as a stock company, had returned no dividends to policy holders other than the 6 per cent above suggested, the other conditions of the business remaining the same, a much larger and more juicy melon could have been served up to the stockholders, for the shares would then have been worth \$1,760, instead of \$100 par value. This looks like making money pretty fast.

While the State Compensation Insurance Fund has been prospering as above made evident, five of its competitors in the field have failed and gone into liquidation, leaving small assets to their stockholders and leaving hundreds of injured employees and their dependents uncompensated; and ten other insurance

companies have retired from the compensation field unable to do a profitable business in competition with the state fund. There are still about twenty insurance carriers in the field, but most of them complain that they are unable to make any money out of insuring against compensation risks.

However, the state is doing only about 40 per cent of the insuring of compensation and 60 per cent of it still goes to other carriers, mainly to stock companies. Just why so many employers persist in giving their business to the stock companies in the face of the well known fact that the state fund ultimately returns at least one-third of the premiums to the insurers is not entirely clear. The stock companies attribute their success in getting business, notwithstanding this handicap, altogether to salesmanship, but it would seem that salesmen who can sell insurance for a third more than it can be had for elsewhere are wasting their time selling insurance, which at best does cost a great deal of money, when, as in California, there is so much blue sky to be sold that does not cost anything at all.

The black beast which pursues the insurance carriers is the insurance broker. He performs a useful service, but is paid by the wrong party. If an employer desires to have a broker place his insurance for him it is proper for the employer to hire such broker to render him that service and pay for it, just as he would pay for the services of an attorney; but, under a system which has grown up in the insurance field, the insurance carrier pays the broker, and the broker, having secured a client, hawks the business from company to company and places it where he can do best for himself—and he does this with old business as well as with new. Therefore, every insurance carrier must fight to hold its old business as tenaciously as it fights to get new business. This is a very great source of expense to insurance carriers and they have not the courage to shake off the incubus, whereas the state fund, at the outset, declared that it would pay no brokerage, and so its acquisition cost is only a fraction of that of its competitors in the insurance field. If the other insurance carriers do not cut themselves loose from this drag upon their resources it will only be a question of time when the stock companies will have to retire from the compensation field of insurance and the fund will

have a monopoly of that field by operation of the natural laws of trade, rather than by compulsory legislation. The remedy is easy to suggest and not very difficult to apply. It would consist merely in a gentlemen's agreement to pay no more commissions for anything except new business and to let one another's existing business severely alone. If this were done, and lived up to, it would save a very important source of overhead cost to the private insurance carriers and would probably enable them to stay in the field in wholesome competition with the state fund. The only reason apparent why this has not been done is that the insurance gentlemen in charge of the insurance companies know each other too well.

It cannot be questioned that the State Compensation Insurance Fund of California has proven a marked success. It has furnished insurance coverage to its patrons for one-third less than it has cost those employers who placed their insurance with private insurance companies and yet it has been more liberal than the private companies in its treatment of injured employees. At the same time it has made money hand over fist. Its surplus is invested in municipal, state, and liberty bonds and its underwriting has been prudent and based upon sound insurance principles.

In conclusion, the writer desires to emphasize the fact that the possibilities of insurance for the relief of human hardship have been only partly utilized. The hazards of life, such as sickness, unemployment, industrial injury, premature death, can be guarded against only through insurance. There is no other way under a free society and there are those now living who will live to see the time when the states of this Union, in common with California, will have to make choice between a comprehensive system of social insurance that will insure against the hazards of life from the cradle to the grave or accept socialism or social anarchy in its stead. All these forms of insurance are essentially within the scope of social obligation and we in California think that our "adventure in state insurance" furnishes at least a reasonable hope that if the state shall be called upon to furnish insurance against the other hazards of life at what such insurance is reasonably worth, as well as against those of industrial injury, the state can assume the obligation with confidence in its ability to discharge it.

FINDINGS OF FACT¹

In fulfillment of the duty imposed upon the Commission to make specific findings of fact which appeared upon the investigation made, it begs leave to make the following definite findings:

1. That every state visited by the Commission is satisfied with its own Workmen's Compensation Law and the present method of its administration.
2. No state visited by the Commission seemed to have any definite knowledge of the law or method of administration in any other state, so as to give it a basis for making an intelligent comparison between its law and system of administration and the law and system of administration in any other state.
3. That a state insurance fund properly administered furnishes cheaper insurance to the employer than he can secure in private insurance companies.
4. That workmen's compensation is more promptly paid by private insurance carriers than by either competitive or monopolistic state funds.
5. That in states having a competitive state fund plan the employers seem to prefer private insurance, as indicated by the small percentage of the business written by the state fund. For example, Maryland, where the insurance fund writes 10 per cent of the total workmen's compensation insurance written in the state.
6. That no appreciable increase in the gross amount of compensation benefits paid to injured workmen or their dependents has resulted from the adoption in any state of the state fund plan of administration.
7. No state has established a state insurance fund which was not provided for in the original compensation act, nor has any state abolished such fund after its establishment.
8. That the plans of administration worked out in the several states have been adopted with special reference to the industrial conditions of that state and could not successfully be transplanted in all details to another state.
9. That the fundamental purposes of the ideal workmen's

¹ From Minnesota House of Representatives. Report of the Special Interim Committee on Workingmen's Compensation. Workingmen's Compensation Publicity Bureau. January, 1921.

compensation law are: (1) To pay compensation to injured workmen and their dependents; (2) to make liberal provision for medical, surgical and hospital care and treatment; (3) to secure prompt payment of compensation and prompt furnishing of medical care; (4) to provide adequate state supervision of all compensable cases, so as to insure prompt payment in full of all benefits under the compensation act; (5) proper insurance and guaranties of all compensation benefits regardless of the solvency or financial responsibility of the employer; (6) insurance of the compensation liability at reasonable rates.

10. That the fundamental purposes of the compensation law may be better accomplished for the state of Minnesota through a system of administration by an Industrial Commission, without providing for a monopolistic or competitive state fund.

11. That the present system of administration and payment of claims through the District Court in the state of Minnesota is objectionable and should be abolished in favor of an administrative board.

12. That the Industrial Commission when created should be vested with the powers and duties now vested in the Commissioner of Labor in order to successfully correlate all activities of the Department of Labor.

NEGATIVE DISCUSSION

RELATION OF COMMERCIAL INSURANCE TO THE WORKMEN'S COMPENSATION PROBLEM¹

Is it true that workmen's compensation is more sociological than commercial, when viewed from the standpoint of the employer, the one who "pays the freight"? He it is who must find dependable ways and means for facing a problem which, in its immediate effect upon him, would seem to be a plainly commercial one. He may be ever so much in sympathy with the beneficent purpose of the law, ever so zealous in doing his part to make it a success, yet as a prudent business man his chief concern must at all times be the reliability and efficiency of the insurance medium through whose assistance he is enabled to carry out its essential commercial features. Society has imposed upon him a financial task of no small magnitude. Shall it then compel him, willy-nilly, to insure that risk by some idealistic plan which is utterly repugnant to his business judgment? Merely because the system in its larger aspects is sociological in nature, is he to be given no choice between an "ideal" and a practical plan for protecting his own interests and, through them, the interests of his employees? As a matter of fact, in those states where he has had freedom of choice in this respect he has, as you know, overwhelmingly favored the practical plan, despite its taint of commercialism.

And who is wise enough to say with certainty that insurance of this kind, when administered by the state, for example, is really more "ideal" in character than when administered by a private carrier doing business for profit? The ideal thing is the perfect thing. Ideal compensation insurance is that which combines in the highest degree the factors of accident prevention, loss protection, administrative efficiency and reasonableness and stability of cost. Inherent deficiency in either of these particulars makes it anything but ideal. What, may we inquire, do

¹ From article by Fred L. Gray, President, National Council of Insurance Federations. 16p. Minneapolis. 1916.

you see in the present field of experimentation which leads you to believe that state insurance "funds," either monopolistic or competitive, possess even one of the above requisites, or that any of them point the way to a workmen's compensation utopia? Is there anything in the known record and present deplorable condition of the oldest of *monopolistic* funds, that of Washington,—or in the perplexing record and suspected insolvent condition of its younger but more ambitious rival, the Ohio fund—to encourage a repetition of like ventures in other states? Is the disappointing career of New York's state insurance scheme calculated to inspire confidence in the *competitive* fund idea? Where, in short, are we to look for a single really successful example of politically managed insurance among the thirteen American states which have essayed that experiment in one fashion or another? On the other hand do we not find general satisfaction among both employers and employees in every one of the nineteen states which have steered clear of this fallacy altogether, and wisely left the administration of the insurance features of their compensation laws to competent insurance specialists?

We grant you that *if* we could have one national instead of forty-eight state systems of compensation, so that there might be a sufficiently broad distribution of risk on each class of accident hazard to give full play to the law of insurance averages; that *if* the federal constitution were so amended as to make it possible for the government to pledge the nation's resources in fulfillment of its insurance obligations (as the commercial companies pledge theirs); that *if* the government would offer the necessary financial incentive to attract trained and able insurance experts to its service; and that *if* the taxpayers at large could be persuaded that it is the duty of society directly to assume both the insurance risk itself and the entire cost of administering the insurance, then a governmental plan might reasonably be described as ideal—just as Socialism, in the abstract, may be called ideal. But what earthly prospect is there of any of these conditions being realized, at least at a sufficiently early date to make the subject even speculatively worth discussing?

The Insurance Federation contends that under our jurisdictional system of government the inability of any individual state to get proper risk distribution is in itself an insurmountable barrier to its successful insurance of workmen's compensation. Without proper distribution of insurance risk there can mani-

festly be no proper distribution of insurance cost. When the state establishes a compulsory insurance fund, the employers have as much right to demand that it shall be collected fairly as the employees have that it shall be distributed fairly. In fact, every compensation law in the land providing for a state fund of any kind stipulates that the insurance rates thereof shall be levied *equitably* with respect to the varying accident hazards of the industries of the state. This means that there shall be no class discrimination between risks; that each class shall in the long run bear its own proportionate compensation cost; that each industrial group shall eventually stand on its own actuarial bottom. Where, therefore, certain classes of industries comprise but few and relatively unimportant plants, the strict application of this principle would (through inadequate risk distribution and consequent lack of stable loss averages) virtually mean self insurance, and the only remedy would be to make other classes of industries carry part of the load in addition to their own. This method of robbing Peter to pay Paul is certainly not ideal, nor at all in accord with the purpose and promise of the state to give employers equitable treatment in the matter. For these reasons, therefore, we maintain that however well a state might eventually succeed in solving other phases of the problem *it must in the very nature of the case be forever handicapped in solving this one because of its inability to secure a nation-wide distribution of risk, as the insurance companies do. The state manifestly cannot go beyond its own borders to write insurance.*

There is no more reason for society, as represented by the state, to pay part of an employer's premium for compensation insurance than there is for it to pay part of his premium for fire, boiler, elevator or fly wheel insurance—certainly no greater reason than there was before the advent of workmen's compensation for it to pay part of his *employer's* liability premium, a thing which no one would have dreamed of proposing.

This latter phase of the matter is one, by the way, which vitally concerns insurance men of all classes, regardless of any direct interest they may have in the casualty business, for the same logic which leads many theorists to believe that compensation insurance, at least, should be administered at public expense can as easily be employed in support of the contention that many other kinds of insurance (needed by wage-earners) should also be administered at public expense. In this connection the Insurance Federation of Minnesota recently advanced the

following argument in reply to the claim of the Minnesota State Federation of Labor that there should be no profit in insuring against "the misfortunes of the working classes":

Just stop and consider for a moment what would become of the insurance business as a whole if such a doctrine were sound, and if we should begin making laws accordingly. The "working classes" include pretty much everybody, and the "misfortunes" to which they are heir, and which can commonly be insured against, are almost without number. Isn't it a misfortune when fire or wind-storm destroys your belongings, or when a thief breaks in and steals them? Isn't it just as great a misfortune to your family if you die from an illness contracted at home as from an accidental injury received at the mill? And don't you see that if the principle is once established that the state, and the state only, should insure against this thing or that solely because it involves a "misfortune" to a member of the "working classes" we will shortly be told that the state alone should insure fire, tornado, burglary, life and numerous other kinds of risks?

And to this it might well have been added that, if the purpose in making the state an insurance carrier is to reduce insurance costs, it should be remembered that there is no form of insurance known to underwriters in which the administrative cost is so small, in proportion to the actual service required and rendered, as workmen's compensation—that there is no other kind of insurance which the state could administer *with so little net saving to society*.

Unless we are headed straight for socialism, it seems improbable that many advocates of state insurance will ever venture beyond this point of claiming that the state should pay the administrative cost thereof. But if we go even that far in this particular direction why not go the same length in many another and far more important direction? The loss cost or "pure premium" in insurance may perhaps not improperly be likened to the raw material of a manufacturing plant, while the administrative cost, or overhead expense, is of much the same character in both insurance and manufacturing—chiefly representing in both cases, as it does, *service* to the customer. Compensation insurance plays a very necessary part in the solution of an admittedly sociological problem, hence the claim that its overhead expense should be borne by society rather than by the direct purchaser. But is it not even more vital that the people at large be fed, clothed and housed economically than that those of them who are engaged in industrial pursuits should be

properly compensated for accidental injuries? Does not the production and distribution of foodstuffs and clothing present a sociological problem of the very first magnitude? If, therefore, it is the duty of society to rid compensation insurance of its direct burden of overhead expense by transferring that burden from the employer (where it can at least be identified, measured and kept within bounds) over to loosely administered public funds (where it assuredly will *not* be kept within bounds), why is it not equally the duty of society to rid, in like fashion, bread, shoes, clothing and various other necessities of life of their far greater overhead expense? Logically, what distinction is there between the two propositions? In a recent public address Senator Lawrence Y. Sherman, of Illinois, aptly summed up the case against state insurance by saying:

Whatever the reasons given, no more sound basis exists for the government to write insurance than to bake bread and furnish it to the consumer at cost. The wheat fields of the United States can furnish as sound an argument for government ownership as the insurance business. Bread is likely as necessity to the people as insurance.

And if the sociological nature of a law is to govern all the elements entering into its practical application where will we land with respect to certain other laws, and also with respect to certain other features of these workmen's compensation laws which are quite foreign to the matter of insurance? For example, practically every state has a factory law under the provisions of which industrial employers are compelled (supposedly) to safeguard dangerous machinery. The market is flooded, as you know, with a multitude of devices and appliances for this purpose. Their makers are in business for profit. These factory laws also are "more sociological than commercial" in character. Would you therefore contend that the "ideal" plan for providing such safety equipment would necessarily be one under which the element of profit is eliminated from its manufacture? Do you think the state should manufacture it, and that it should prohibit the use of all that is commercially made?

And again. All American compensation laws provide for a burial expense and, with but five exceptions, all of them provide for more or less surgical and hospital expense. If your reasoning is sound that insurance (which secures the payment of compensation to employees regardless of the employers' ability to pay, while at the same time protecting the latter against unfore-

seen financial loss) should be decommercialized, why should not the manufactured articles which enter into surgical treatments and burials also be freed of their commercial quality? If there is any logical impropriety in the earning of dividends on capital invested in an insurance institution whose function it is to make workmen's compensation fully effective in *all its provisions*, why is it not equally improper for the owners of wholesale and retail drug stores, casket establishments, etc., to earn dividends growing out of the manufacture or sale of medicines, bandages, splints, crutches, artificial limbs and coffins, incident to the proper administration of the *two provisions* of the law relating to surgical relief and funeral expenses?

And to go a step further: If the trained and experienced agents of commercial insurance companies, who (as we shall later point out) render a vast amount of invaluable service to both employers and employees, should be dispensed with and their places filled by public employees, why should not the state logically provide salaried physicians and undertakers to treat the disabled and bury the dead victims of industrial accidents?

And when you have reached that point—when the commercial element is entirely extinguished and the whole matter is safely deposited in the hands of politically appointed office-holders—what then? Will claims be paid more fairly or more promptly? Will widows and orphans be better assured of their pensions ten years hence? Will dangerous machinery be better safeguarded? Will there be a more scientific and equitable distribution of the premium cost among employers? In short, will the cause of workmen's compensation be thereby advanced in any possible particular? As an intelligent and observing man you know the answer to these questions as well as we do.

When we come to the widows and orphans of those killed in industry, what security does the state give that their future pensions will be paid? You know as well as we that no state pledges a penny of its resources or credit for the payment of these losses. You know that the term "state insurance" is the rankest kind of a misnomer, because the state itself actually *insures* nobody; that it merely operates a public *mutual* insurance association and often, too, without the restrictions and supervision with which it seeks to safeguard the operations of private mutual associations. The stock companies, on the contrary, not only stake their good money on the fulfillment of their com-

pension obligations—whether these mature next year or twenty years hence,—but they also employ the best actuarial and underwriting talent obtainable to make certain that their operations will be conducted in accordance with the principles of sound insurance, so that there may be no doubt about their financial ability to meet those long deferred liabilities which are the outstanding feature of all compensation insurance. Talent of this order rarely seeks public employment, hence state-managed insurance funds are usually found in the hands of those whose services are not in great demand with the established companies.

STATE MANAGEMENT¹

Following are some of the specific faults of state management:

1. A universal defect of state-managed insurance is that it never results in a proper differentiation of insurance rates in proportion to hazards. Inability properly to differentiate rates through comparative inefficiency has been demonstrated wherever state-managed insurance offices are in competition with private insurers, a good illustration of which is the experience of the Holland state office, described in "Workmen's Compensation and Insurance in France, Holland and Switzerland," by Harold G. Villard (New York, 1913) p. 53-9. In Norway, where the state has a monopoly of compensation insurance, not only are the rates "flat" for each trade class, i.e., identical for each establishment therein, but the administrative officials have refused even to try to discriminate between individual establishments, on the ground that to do so would subject them to accusations of and to appeals for favoritism. Moreover, they have been bent upon cheapness of administration, and therefore have avoided the expense of an expert inspection force, without which rates cannot be fixed fairly for the respective trades or properly differentiated to fit variations in risk in the individual establishments. This objection is of vital importance. Lack of proper discrimination in rates is not only most unjust to the more careful employers by making them pay for a part of the losses of their careless

¹ By P. Tecumseh Sherman. From *Criticism of the Insurance Features of Workmen's Compensation Act of Nova Scotia*. p. 16-24. October, 1915.

competitors, but it also thwarts a principal purpose of the compensation law, which law is designed not only to furnish just relief to the victims of industrial accidents, but also to reduce accidents. But in order to be effective for that latter purpose either each employer must pay his own losses or the rates for insurance must be fairly differentiated according to the relative degree of risk in each establishment. Where, on the contrary, rates are "flat" for all in each trade or industry, the tendency is to make every employer indifferent as to his risks. For this reason industrial experts almost universally condemn the Norwegian state service.

It is also argued that the failure of the state insurance offices to differentiate rates fairly is simply accidental, and that a state bureau may do so as well as a private company or self-managed mutual association. The answer to this contention is that a state insurance office cannot do so without subjecting itself to accusation of and appeals for favoritism and without sacrificing its claims to cheapness. Public service is more expensive than private service; and if the state furnishes a service equivalent to that of private companies or self-managed mutual associations it will cost more. Moreover, state inspection is never so expert or responsible as is private inspection.

The Ohio Industrial Commission, however, claims that it can differentiate rates properly, without inspections, solely upon experience—i.e. upon the past records of establishments in the way of accidents. That is absurd. No one would insure a boiler, an elevator or a flywheel on its past record, without inspection. And the same should be true of all major industrial risks. The Ohio practice holds out no inducement to improvements; for it offers no reward for measures taken to correct past hazzards. The Ohio Commission has been driven to make this absurd claim in order to glaze the fact that it has *no force competent to inspect*.

Employers should avoid being misled by specious comparisons between the advertised premium rates of state monopolies and private companies. The former—for example, in Ohio—are often *minima*, or other mere first installments, subject to loadings and penalties for unfavorable experience, whereas the latter, in American practice at least, are approximate *maxima* and subject to reductions for favorable conditions or experience.

2. A flat rate for each trade is not the only evil to be feared. Under state administration it is political influence and not cost

that will fix the premium for many trades. Under political administration in Norway many of the larger and more dangerous industries have been given rates which have fallen far short of covering their losses, and the deficiencies thereby incurred have been partially made up by excessive rates on the safer trades and occupations. In West Virginia, when a measure for a state-managed monopoly was in process of formulation, the most influential industry—coal mining—procured the insertion in the law of a provision limiting premium rates to a maximum of 1 per cent of payrolls. Owing to heavy losses from a calamity in coal mining the result was a prompt deficit, with the consequence that the safest industries, whose losses would have been covered by a rate of $\frac{3}{4}$ of 1 per cent, had to pay the full 1 per cent rate and in addition incurred a liability to share the deficit *pro rata* with mining. Similar political manipulations in time characterize state monopoly everywhere. Nova Scotia cannot hope to be a permanent exception.

3. Under state-managed insurance generally the allowance of claims and the adjustment of awards are left absolutely to the discretion of a few political officials. Employers have no opportunity to scrutinize claims and nothing to say about their allowance, although they must pay the bills. Experience everywhere indicates that this condition results in extreme laxity in guarding the funds against malingering, fraudulent impositions and exaggerations, and in a tendency on the part of the officials to misuse their powers to distribute political favors or charitable relief at the employers' expense. Bearing in mind that malingering is the bane of the compensation law, it is obvious that unless a careful system of checks upon impositions is maintained there will grow up a perfect army of pensioners living in idleness on "compensation"—an army with votes ready to use their political power to protect and extend their privileges. In the majority of the state-insurance countries, as well as in Washington and Ohio, there is almost no expenditure to control claims, to prevent impositions or to exercise surveillance over pensioners, such expenditures being omitted in order to make a good showing in expenses of administration.

Political adjustment of awards is not only thus too loose for the employers' interests, but it is also too dilatory and inconvenient for the injured workmen's interests. Under the Ohio and Washington administrations no payments are made until the injured person has filed with the state office a complete

series of paper reports all properly filled in and executed by himself, his employer and his doctor, and until these papers have all been checked up, approved, etc., by the state officials. The red tape of bureaucracy unwinds slowly and frequently gets tangled up. Consequently first payments of compensation often are not made until weeks or months after they are due, the claimants in the meantime probably being in distress. There is no penalty for delay upon public officials; whereas where employers are directly liable, except in the rare cases of reasonable disputes, payments must be made promptly when due, under penalty for delay. And when a claim for disability is allowed by the political administration in either of the states above named, the period during which the payments are to continue is generally arbitrarily fixed in advance, so that if disability continues thereafter the workmen must file a new set of papers, etc., etc.; whereas under private administration the payments must be continued regularly and promptly until recovery can be shown. State management is often pictured in the minds of the working people to mean a corps of public servants working overtime to give to the relief its maximum benefit at minimum inconvenience; whereas in fact it means indifference, and exactions and delays that would not be tolerated in a private service.

Some of the working people seem to believe that state administration is preferable because it will most completely avoid litigation and the difficulties and delays they have been accustomed to in proving their cases in courts. This belief is without substantial basis. In the first place, a special board or commission, with simplified procedure, to supervise the operations of the law and to decide doubtful claims, is just as appropriate with privately administered insurance as it is with state administered insurance. In the second place, there is really far less delay and difficulty in securing compensation where insurance is privately administered than where it is not. For where insurance is privately administered payments in practice are immediate and automatic, except in the small proportion of cases that are litigated—in British experience less than seven cases in a thousand are litigated,—whereas under state administration every claimant is subjected to the difficulties and delays of proving his claim.

4. It is not sound public policy that the same officials who

fix rates and administer the funds should also decide claims and determine awards against such funds. As the Commissioners on Uniform State Laws (U.S.) put it: They "cannot properly act as a party defendant and also as the court which is to decide the case." These two functions are incompatible. To confide them both to one set of officials is to invite perversions of the law.

From lack of experience the working people are inclined to favor state management with both the administrative and judicial functions confided to a single board, because of a belief that relief will then be dispensed with greater sympathy for and liberality toward claimants than would otherwise be the case. That is only partially true. It would be more correct to say that relief will then be dispensed with the least regard to the terms of the law. But the principal beneficiaries of perversions of the law will be malingeringers and impostors, and those having political "pull," and not the industrious and honest workmen. Experience shows that the most commendable aim of public administrators of insurance is cheapness of administration, which results in a less careful scrutiny of claims and surveillance over claimants, with the ultimate result that the claims' account is mulcted by impositions and malingering. On the other hand, political administration may, and at times will, operate to the prejudice of honest claimants. Where, for example, through mistake or a desire to curry favor with the employer-class, rates have been fixed too low and a deficiency is threatened, there will be a disposition on the part of the administrators of the fund to scale down awards so as to make ends meet and hide the mistake in rate making, regardless of the exact legal rights of the claimants. That this is being done in the State of Washington is already charged. Sometimes the power of political administration will be used to stretch the law to favor claimants; but at other times it will be used to scale down awards in favor of low rates for employers. It is a two-edged sword which cuts both ways. And a preference for this system implies a purpose that it shall be misused one way or the other.

5. State-management of the insurance also militates against liberality because it tends to break the direct relations between the employer and his injured workmen. Where an employer has been heavily taxed by the state to insure his workmen, his disposition will be to leave them to the state to take care of when

injured. But where he is directly liable to pay compensation, with a free choice of methods of insurance, the payment of relief remains a personal matter, and he will often be liberal beyond the terms of the law in compensating his injured workmen;—for the law does not limit the relief that he may furnish, but simply prescribes a minimum. Under the direct liability employers generally will insist on fair compensation being paid by their insurers as a condition to continuing their insurance;—indeed English experience indicates that generally the employers will themselves pay the compensation to their employees, and look to their insurance companies for reimbursement, with the consequence that the relief will be much more prompt and, for plainly meritorious cases, more spontaneous and generous. The objection to liberality being dispensed by state officials is that, being out of other people's money, it will probably be dispensed carelessly and without discrimination, and that the beneficiaries will more probably be impostors and malingering rather than deserving workmen. This objection is confirmed by experience in Italy, where the tremendous increase in the ratio of compensated injuries under the administration of the Italian National Fund is generally ascribed to impositions and abuses, due largely to indifferent management.

One reason for the demand for state administration by some of the working people is that they fear that under a direct liability the employer or his insurer may coerce or induce injured employees to settle on less favorable terms than the law contemplates. But that abuse can readily be prevented, as is done under many of the laws, by requiring all settlements to be approved by some disinterested board or authority, and by making all settlements voidable until so approved.

6. State-managed insurance, by breaking the direct relation between employers and their injured workmen, leads to the expensive consequence that where a workman suffers serious partial incapacity by injury, instead of being retained by his employer at a lighter task and at lower wages and then compensated for the reduction in wages only (by which adjustment both the employer and the workman gain), the workman is frequently cast out altogether and becomes an idle pensioner on the insurance fund. English experience demonstrates that private insurance under a direct liability law generally avoids this

wasteful and harsh abuse. Moreover, under private insurance it is effectively sought to cure the injured and to get them back to work and full wages as soon as reasonably possible, thereby reducing both the loss to the injured and the cost to employers; whereas state-management generally contents itself with a dull, mechanical and dilatory adjustment and payment of claims.

7. Experience and precedents are both against state-management. The Norwegian state insurance law was one of the earliest of the compensation laws; yet it has been deliberately rejected as a model by every other country. After Norway had adopted its law, Great Britain, Denmark, France, Italy and Spain, in the order named, adopted compensation laws for occupational injuries; and none of them adopted state administration. Then, in 1901, the Netherlands adopted a sort of state insurance law, but with vital modifications giving employers an option to insure privately or to carry their own risks. Belgium, however, in 1903, after careful observation rejected the Dutch plan, and returned to the direct liability with optional forms of security. And none of the later compensation laws have adopted monopolistic state-management except the Swiss social insurance law of 1911 (to take effect, if at all, in 1916), and the laws of Ontario and of a few states in the United States. The prevailing types of workmen's compensation law are either direct liability laws—with or without compulsory security in optional forms,—or self-managed mutual insurance laws, modeled more or less after the German system. The prevailing expert opinion is that the choice undoubtedly lies between these two types.

Monopoly

It is obvious that the obligation placed upon each and every employer subject to this act to subscribe to mutual insurance under a single management establishes a monopoly. Why create a monopoly? Monopoly leads to laxity, comparative inefficiency and indifference to minority dissatisfaction and to incidental abuses, injustices and defects, which would be cured under competition. Where one arbitrary form of insurance is prescribed for all it will be unsuitable for many and there will always be a large proportion who will be dissatisfied. Certainly the better classes of employers—those with relatively low risks—will have cause to be dissatisfied with any monopolistic form of insurance,

for it will result, generally, in their being treated indifferently on a par with their more negligent competitors. The state can strictly regulate and supervise competition and can keep it within proper bounds; and it can make private and competing organizations be as generous, prompt and certain in furnishing compensation as a state administration with a monopoly should rightly be. What, then, is to be gained by giving the government a monopoly of the field and by refusing to allow employers to suit their insurance to their own needs, provided it protects the employees? Because state officials realize that they cannot meet the competition of private companies, that their administration will be handicapped by a sloth and inconvenience of service which private business enterprises do not tolerate, and that they should suffer by comparison with corporate efficiency if there should be competition in the same service, is the motive but is not a sound reason for governmental monopoly. That the prevailing opinion in Europe, based upon experience, is opposed to a political monopoly of insurance is demonstrated by the fact that almost all the compulsory insurance compensation laws, adopted since the early Norwegian law, have either prescribed self-managed mutual insurance or have given employers a choice between many different methods of securing or insuring the payment of the compensation. And in the United States all the great industrial states, except politics ridden Ohio, have done the same.

Where insurance is compulsory and the management of a monopoly is given to public officials, incidentally they obtain the power to tax industrial employers about as they choose. And they may discriminate between individual employers seriously. For the latter are absolutely at their mercy as to which of several trade classes their respective establishments shall be assigned to, and, consequently, as to which of several widely different rates they shall be taxed. Wherever this system prevails assignment to classes is a subject of frequent disputes and constant bitterness. In the State of Washington one employer has had departments of his establishment assigned to eight different classes, and consequently is subjected to assessments in eight different mutual insurance associations. The power in this respect confided to the Compensation Board by the Nova Scotia Act is very liable to abuse. In unscrupulous hands it may be used to rule or ruin industrial employers. It is a tool with which the

unscrupulous politician may coerce or plunder industry. Advocated by socialists as a step toward complete state management of all industries, and by politicians for the sake of its patronage, this system of insurance has no friends in the well informed business world, and deserves none.

In contrast should be considered the superior advantages of making employers directly liable to their employees for compensation, and then simply requiring of each of them such form of sufficient security for the protection of his employees as he may choose. This is in effect the type of the majority of the compensation laws, exemplified in the laws of France, Belgium, Massachusetts, Connecticut, Pennsylvania, Illinois, Michigan, etc. Under such laws there is less bureaucracy and no monopoly of insurance; and each employer enjoys the method of insurance that best suits his needs, and is not placed at the mercy of a political machine. He may have his total charge for insurance fixed in advance, may bargain among competing insurers, may change his insurance whenever deserved, may secure a reduced rate in return for improvements, may join a mutual association if conditions suit him, or—where his risks are sufficiently distributed—may give security and carry his own risks. Under this system there is less opportunity for abuses, comparatively direct mutual relations between employers and their injured workmen are maintained, there have been developed methods of rate differentiation that have been powerful factors in reducing the hazards of industry, and the workmen are as well secured and premiums are relatively as low as under state managed monopolies, even where the state pays the whole or a large part of the expenses of administration.

The one argument for an insurance monopoly is that it will be cheapest, because, it is claimed, it will eliminate the waste and expenses of competition. In the abstract, this argument is persuasive. But it is of no greater force in regard to compensation insurance than in regard to any other line of insurance, or in regard to insurance than in regard to any other commodity. Therefore, in the abstract, if it be cheaper and better for the state to manage all compensation insurance, then also should it be cheaper and better for it to monopolize all mining, all building, all manufacturing and all agriculture. We must either accept this broad conclusion or reject this abstract argument and rely upon practical experience for our guide.

WHY MISSOURI EMPLOYERS REJECTED MONOPOLISTIC STATE FUND INSURANCE¹

We learned of the State Auditor's report on the Washington monopolistic state fund, covering the first five years of its operations. That showed that such fund's reserves were insolvent by over half a million dollars. We learned that its operation was unsatisfactory and inefficient; that 6 per cent of all claims were rejected as compared to less than $\frac{1}{2}$ of 1 per cent in Kentucky, Indiana and other states; that in 43 per cent of its death cases there were either supposed to be no dependents or their claims were denied; that the division of the industries into separate classes with separate funds worked an injustice upon the larger members of those classes, who principally carry the risk of the smaller members; and that the funds of several of those groups or classes were hopelessly insolvent. Settlements were in too many cases slow and unsatisfactory. Without going into further detail, we consider the experience of Washington was not of itself an argument in favor of the adoption of monopolistic state insurance.

We learned that the experience in West Virginia, while not as bad as Washington, was far from being a commendable example or a sound reason for favoring a monopolistic or a semi-monopolistic state fund.

Organized labor told us that Ohio was a shining example of the excellence, economy and efficiency of the monopolistic state insurance fund, and an unanswerable argument in favor of its adoption in Missouri. There came to our hands considerable literature emanating from the Ohio Commission, the managers of their state fund, which also supported that view. But we decided to investigate further.

We concluded that the literature sent to us by the Ohio Commission, assuming to give the actuarial status of its fund as compared to stock companies, was somewhat misleading.

Regardless of the kind of insurance that is carried, the amount of money paid for losses depends, of course, upon the accidents, and the money so paid, we were informed by the

¹ From address by William R. Schneider, delivered at the Joint Convention of the International Association of Casualty and Surety Underwriters and the National Association of Casualty and Surety Agents, White Sulphur Springs, West Virginia, September 30, 1920. Workmen's Compensation Publicity Bureau, New York.

Ohio literature, constitutes pure premium, and the balance of the premium paid by the employer is the loading for administrative expense. We were informed, and with approximate correctness, that the stock company pure premium was between 60 per cent and 67½ per cent and the administrative expense between 37½ per cent and 40 per cent, and that the administrative expense of the Ohio monopolistic fund was only 3½ per cent of the premium, or a saving in favor of the state fund of approximately 34 per cent over the most efficient stock company. But in this same literature from Ohio we also noticed this statement: "The scale of benefits of the Ohio Workmen's Compensation Law is now higher than that of any of the thirty-nine states of this country having workmen's compensation laws.

This statement was made by the Ohio actuary probably to justify the Ohio state fund's insurance rates. But we knew, and anyone who could read and compare the scale of benefits of the Ohio law with other compensation laws would know, that that statement was not true. And to the extent that it was not true the Ohio rates were probably not justified. So we concluded there might be some mistake about this 34 per cent administrative saving under the monopolistic state plan.

We found that the stock company overhead loading of 40 per cent was made up of approximately the following items:

Commissions and acquisition costs	17½%	
Taxes	2½%	
		20%
Claim settlements and adjustments	7½%	
Home office expense	8 %	
Payroll audits	2 %	
Safety inspections	2½%	
		20%
Total		40%

We found that the 7½ per cent for claim settlements is customarily carried by the state funds as part of the pure premium, being considered part of the losses or cost of settlements. This leaves 12½ per cent of the total premium for home office expense, payroll audits and safety inspections. We found that, under the state fund, part of this work is done by other state departments and is not charged to the fund. This is how the state funds arrive at their expense ratios of from 3½ per cent to 8 per cent.

The $2\frac{1}{2}$ per cent for taxes, of course, does not go to the company, nor does the $17\frac{1}{2}$ per cent acquisition cost. We found that the foreign funds of average efficiency required as administration expense of approximately 20 per cent of the earned premium.

Assuming, therefore, for the sake of the argument, that the same monetary expenditures under state fund and stock company insurance produce the same efficiency in administration (which is not true), there remains but one item of expense in which the state fund is more economical than the stock company, and that is the $17\frac{1}{2}$ per cent item of acquisition cost. In other words, $17\frac{1}{2}$ per cent of the premiums which the employer pays to the stock companies he could save by subscribing to a monopolistic state insurance fund.

We were told by the stock companies that this item of cost is justified by the nature and extent of the services which their local agents render the insured as well as in connection with writing his business. Under the common law system and the numerous varieties of insurance which the employer now carries this is no doubt a proper charge. But the point was made by various employers that this charge was too high when you consider the fact that we are compelled under the compensation law to carry insurance. Therefore why pay 15 per cent to 17 per cent for the competition among agents and some additional service? This form of insurance does not, as a rule, require the service of the agent to the extent that the other types do.

This $17\frac{1}{2}$ per cent charge, it was thought, would be more likely to propagate some employers' mutuals or cause the larger employers to carry their own risks, rather than create a stampede toward monopolistic state fund insurance.

But we found other reasons why we preferred stock company insurance to the monopolistic state fund. The principle argument in favor of the Workmen's Compensation law, is that it provides prompt benefits for the injured workman during his period of disability, without the uncertainty, delays and dissensions consequent upon the old common law system.

We learned that the Ohio State Board of Commerce had sent questionnaires to each of about five hundred Ohio employers, employees and physicians to determine as nearly as possible with what efficiency and satisfaction the Ohio monopolistic

state fund is operated. According to some two or three hundred replies from each class the following facts were developed:

The average period of disability of employees was seven weeks. The average time elapsing before the receipt of the first compensation payment from the state fund was ten weeks. Seventy-three per cent of the employees received no compensation until after they were able to go back to work, and 44 per cent of the injured employees were paid in lump sum payments after their disability had ended.

In so far as these replies may be considered typical of the general situation it appears that the operation of the monopolistic state fund deprives the injured employees of the very benefits which the Workmen's Compensation Law was intended to provide.

Conclusions Against State Fund Insurance

Missouri employers were impressed with the fact that the theory of monopolistic state fund insurance is fundamentally wrong for several reasons. The public officers who manage these funds, are, as a rule, not experienced in this highly technical business, and just when they are beginning to learn something about it, after having made many expensive mistakes, the administration changes, and a new set of inexperienced managers comes in and makes some more expensive mistakes.

You cannot expect these public officers to take the same interest in conducting a state fund with economy and efficiency as they would if they were conducting a private enterprise. Our changing administrations constitute, at best, governments of new broom efficiency, with inexperienced workmen managing the broom.

Under the state fund the injured employee is compelled to file his claim for compensation with the managers of the state fund. The reputation of these managers depends to a certain extent upon maintaining their fund solvent; and we did not feel that they could be expected to dispense even handed justice by themselves sitting as judge, jury and defendant. This is contrary to our fundamental idea of justice; and yet that is what the employee is compelled to submit to under the state fund plan.

We felt that there was danger of one or two unscrupulous men using the large patronage of a monopolistic state fund for the purpose of intrenching themselves more or less permanently

in governmental seats by building up powerful political machines, through using a small part of the millions of dollars which the employers must necessarily provide in premiums for the conduct of the fund. It is for the fund managers to say how many inspectors and adjusters are necessary. It is self-evident, therefore, that it gives them ample opportunity to wield great political power should they be so inclined; and men who seek and accept political office sometimes desire more political power. That is human nature.

We are impressed with the fact that the competitive state funds controlled on an average of only about 13 per cent of the compensation insurance business in their respective states. This, too, influenced us to the belief that the alleged excellence of the state fund was perhaps somewhat overdrawn, even after making allowance for the fact that perhaps part of this low average was due to the alleged insidious insurance agent propaganda.

We also felt that the state fund plan was not an adequate protection against the catastrophe hazard. Labor told us that since there are at least fifty companies doing business, a monopolistic state fund would be stronger than the average company. But the state fund does not maintain the large catastrophe reserve fund that the insurance companies have created by pooling a certain percentage of their premiums.

While the Halifax and San Francisco disasters are often cited as evidence of the necessity for such reserve, we understood that, under the construction placed upon most of the American compensation acts, such catastrophes are considered risks of the commonality and are not considered to have arisen "out of and in the course of the employment"; and, therefore, would not be compensable. But there are many catastrophes that might occur and cause compensable accidents against which the insurer and employees should be adequately protected.

There are many other reasons that might be given why Missouri employers rejected monopolistic state fund insurance, but I have already taken up too much of your time.

In conclusion it was our belief and observation that monopolistic state fund insurance is wrong in theory and inefficient in practice. It is not a proper governmental activity. It destroys a large, legitimate, private business, upon which many people in every state are dependent; and the common good is not thereby commensurately increased. It is fraught with dangerous

tendencies and possibilities. It is contrary to those fundamental American principles of government under which this nation has grown great and prosperous, principles which we should ever strive to maintain for ourselves and our posterity.

GOVERNMENTAL OBSTACLES TO INSURANCE¹

The obstacles in question are those of compulsory state insurance, a paternal arrangement which safeguards the worker without any will or initiative of his own or even against his purposes. The insurance premiums are not a gift, but a forced withdrawal of some portion of the workman's earnings, and the need to preserve his claim to these savings serves as a safeguard to prevent him from wantonly leaving his job. Naturally this system, with the accompanying system of old-age pensions, tends to cut the nerve of personal care for the future by throwing the responsibility on the state. Naturally, also, it interferes with the normal working of insurance arrangements, for these appeal to individual initiative and forethought. These thrive best in an atmosphere of freedom, while the systems of state insurance and old-age pensions deal with men and women mainly as cogs in the wheels of a great industrial machine.

We all recognize in theory, at least, the value of some sort of discipline. This involves an orderly use of one's powers and a willingness to subordinate our whims or our interests to some general system related to the common welfare. Discipline implies obedience, and the different types of obedience indicate the nature of this discipline. We may recognize three classes of discipline of grown men. These we may differentiate as democratic, social and paternal. Under the democratic discipline each man is responsible to himself for his own guidance. The period of preliminary education past, he chooses his profession, his own ideals, his own place in the world. Democracy means opportunity, nothing more. It opens the whole world before each man, and so much of it is his as he has the wisdom, the strength and the patience to take. This life is not successful unless he has the wit, the soberness, the virtue to make it so. If he has the chance to rise, he has also the chance to fall. He is not held in his place by dull averages. If he is able to develop no ideal,

¹ From article by David Starr Jordan, Chancellor, Stanford University. Scientific Monthly. 2 : 27-33. January, 1916.

if he wastes his strength in dissipation or vice, if he is one of the unfit in the struggle for life, he must in some degree take the consequences. Under a democracy, the government is simply the cooperation of the people for mutual aid, to achieve those needful results which are beyond the reach of private effort. Its main duty is summed up under the head of justice. And under this head come sanitation, education, the conservation of resources, the making of roads and public buildings and the maintenance in national and international relations of law and order, those conditions which permit of progress, of normal effort and happiness, which we call by the general name of peace.

What I call social discipline arises through obedience to ideals formed in cooperation. One's inspiration arises not primarily from within, but from the thoughts and needs of his neighbors. At its best, the social discipline is an outgrowth of the democratic discipline. It is through its agency that the great cooperative efforts of our race are achieved. To work for the nation is not the same thing as "to hold down a government job." The vulgar attitude toward public affairs is found in all nations—the most pronounced in those least advanced and least democratic. But a sense of social service is one of the best incentives to personal efficiency. It is this sense which has vivified the fight against yellow fever, the bubonic plague and the multitude of minute organic pests which we know by their effects as infectious disease. It is the impulse of social service which has built the Panama Canal, which is restraining the floods of China, which is healing Serbia and feeding Belgium, which in every nation in its degree is fighting against the war system, its theory and its results.

The social discipline must rest on some system of voluntary cooperation. It cannot be enforced from without. Its purpose cannot be accepted as a substitute for achievement. In any form of enforced cooperation, the fine spirit of social service is lost somehow in the governmental machinery. Thus far the communistic state has been successful only as a theocracy or a tyranny. And a state ruled over by a detached few is not cooperative: nor can it be democratic or just.

The paternal discipline is that applied to the people of a nation from the outside. The people are chattels of the state, having no control over its actions, the state having a glory and a prosperity wholly independent of the prosperity and happiness of its people. And by the same token, its rulers must govern

by divine right, else they could have no sanction at all. There are but two sanctions for government, the one the will of the people, the other the divine right, by which the reigns of power were snatched from the people before they were born.

Under paternal discipline, the citizen has no rights save those accorded to him by his overlords of the state. The forms of democracy under paternalism are forms only useful to keep him amused while his neighbor peoples work out their experiments in liberty.

The workman has the choice between the docile acceptance of a fate not wholly intolerable and revolt with certain misery. State insurance against poverty, unemployment or old age guards him against total failure and at the same time cuts the nerve of any effort to gain such security for himself.

Price Collier observes:

Real orderliness is born only of individual self-control. To deprive the worker of his choice of expenditure, by taking all but a pittance of it for taxation, is a dangerous deprivation of moral exercise. To be able to choose for oneself is a vitally necessary appliance in the moral gymnasium even if here and there one chooses wrong. It is a curious trend of thought of the day which proposes to cure social ills by weakening rather than by strengthening the individual. If the state is to take care of me when I am sick or old or unemployed, it must necessarily deprive me of my liberty when I am well and young and busy, and thus make my very health a kind of sickness. If you will have freedom, you will have those who are ruined by it, just as if you will have social and political servitude, you will have a stodgy unindependent populace.

The various forms of labor insurance alone in Germany cost the state over \$250,000 a day... No wonder that between the care of a grandmotherly state and the attentions of a subservient womankind the male population increases... Nowhere has socialistic legislation been so cunningly and skillfully used for the enslavement of the people. No small part of every man's wages is paid to him in insurance; insurance for unemployment, for accident, sickness and old age. There is but faint hope of saving enough to buy one's freedom and if the slave runs away he leaves, of course, all the premiums he has paid in the hands of his master.

The democratic discipline, self-imposed by men who think and act for themselves, is effective in making men, and it is the initiative of individual men which makes and marks history.

The social discipline which springs from individualism is effective in building up human society, and the inspiration which rises from the thought of cooperative help is the best antidote for the greed of unchecked and perverted individualism.

The paternal discipline provides in its degree for material comfort and security. It takes away the necessary incentive to every man to solve his own problems. In a free state, the sober and honest workingman should be free to abolish his own poverty, to enhance his own security or that of his family through insurance—or at his own discretion to let it alone.

CONCLUSIONS FROM THE RECORD OF GOVERNMENT LIFE INSURANCE¹

What has already occurred is a demonstration, to my mind, that in times of peace, without the incentive of patriotic fervor and without the urging of special agents who have the direct pecuniary incentive to procure the insurance, and without the ability of the private company in following it up and keeping it upon the books, government insurance will die a natural death. Furthermore, in the absence of the special risks assumed by the soldier on behalf of the body politic the government has no right to take money out of the pockets of the people generally to provide a special privilege and benefit for the few policyholders. Equal rights to all and special privileges to none.

I believe that the people of this country hold that doctrine to be true, however they may vote. Being true, the government will not be permitted to carry on this business other than for the purposes named above, to wit, for the protection against the extra hazards of its soldiers incident to their dangerous service. The people will not consent to the government's carrying on the business of life insurance with any part of the expense and cost of the same to be paid by the taxpayers of the United States for any other purpose. Whenever the United States Government, or any state, undertakes to do a life insurance business with the same rate charged and with the same kind of policy issued by private companies, the lack of efficiency of the government officials in charge of the business will be so great as compared with the efficiency of the private company that the

¹ By W. Calvin Wells. *Economic World* n.s. 20 : 671-3. November 6, 1920.

government insurance will soon become a thing of the past, and by common consent go out of existence. For, surely, no considerable portion of the citizenship of these United States will ever be willing to permit that what can be as well done or better by private interests, should be performed by the government.

It is perfectly manifest to any observer, as it seems to me that the business of life insurance can not only be as well done, but can be actually better done, by private interests than by the government through its officials.

But what is the prospect of the government now enlarging the scope of its life insurance business? With the condemnation of about four million former soldiers scattered throughout the land of the manner in which the government functioned according to their experience, I cannot believe that any budding socialistic statesman can get anywhere on that platform.

PROFITEERS ON ECONOMIC SINS¹

With the advent, in 1911, of workmen's compensation in this country, state fund insurance came on us with a rush, helped by an insidious German propaganda that prepared the way. The people of this country were caught napping. Particularly so were those in the insurance business.

In that very first year two states—Ohio and Washington—adopted monopolistic or near-monopolistic state fund compensation insurance, followed by West Virginia, Nevada and Oregon in 1913 and by Wyoming in 1915.

Since then our lines have held firm against state monopoly, save in North Dakota, where the Non-Partisan League broke through in 1919.

But the attack is still on. Fierce battles to save the business from political manipulation have raged in Arizona, Virginia, Montana, Missouri, Minnesota, and New Jersey during the last eighteen months; and there were pending in the late Congress measures for the compulsory insurance of compensation to seamen and to private employees in the District of Columbia in national insurance funds, which of necessity would be operated under the guiding principle of political expediency.

Moreover, in ten other states—including the great industrial

¹ From article by Edson S. Lott, President, United States Casualty Company. *Nation's Business*. 9 : 22-3. June, 1921.

commonwealths of New York and Pennsylvania—the state has broken into the field of private enterprise to the extent of providing compensation insurance in competition with insurance companies.

In this ten years' struggle all the arguments for and against monopolistic state fund compensation insurance and competitive state fund compensation insurance have been thoroughly thrashed out; and all the arguments in favor of these innovations have been met by reason or refuted by experience.

But the appeal to the passions still remains.

Why the appeal is effective has been well expressed by Arthur I. Vorys, for many years Superintendent of Insurance of Ohio, in the following words:

Suppose some one, professing to represent the "plain people," assembled the figures showing what a sewing machine costs for labor and material, and then the figures showing what the purchaser pays for the machine. If the campaign were well organized, and aimed only against sewing machines, and the figures well advertised, you know it would be easy to get the state to engage in the business of making sewing machines.

It would not be well for any one engaged in such propaganda to start against more than one enterprise. Such things succeed because none of us take any particular interest in legislation not aimed at our own affairs.

The sewing machine manufacturers and their agents would find little sympathy and no help from other people, they would be denounced by the propagandists just as the liability insurance companies and their agents were denounced. All other people, taking but a passing interest in the matter and finding no campaign against themselves, would only learn to repeat from one to the other that the conduct of sewing machine manufacturers and agents has been infamous. It would be supported by statistics showing the outrageous profit-taking of the middleman, and all the things could be said about it that have been said about liability insurance companies and their agents.

Can the sensible people of America be made to realize that the function of the government is to regulate, and never to engage in business, and that whenever it attempts to engage in business, it violates a vital, fundamental principle of this republic?

The attack on the business of compensation insurance is only the first step in a movement likely to result in the confiscation of all kinds of insurance and of all other businesses operated for pecuniary gain, and finally the erection of a communistic government.

Already fire and life insurance operated by the state have been reached in Wisconsin; and hail insurance in North Dakota, South Dakota, Nebraska, Montana and Oklahoma.

Some years ago certain proposed constitutional amendments to permit Wisconsin to do all classes of insurance and pledge the credit of the state to guarantee its insurance contracts were defeated after a stubborn fight.

For five years the working people have been seriously threatened with compulsory state health insurance.

State operation of railroads and coal mines has been barely avoided. The agitation still continues.

State operation of banks is still going on—or going under.

Is it not time that Americans, who believe that the only business of government is to govern, wake up, get together and boldly present a united front against our common enemy?

In Germany the government is seeking to bring about private operation of its state-owned railroads, to secure economy and efficiency; but in this country the state-socialists are still utter-

In Germany the government is seeking to bring about private management of railroads.

Similarly, as to state fund insurance in this country, it is being loudly proclaimed, in propaganda, to be the cheapest and best. But in practice (with one possible temporary exception, serving merely to prove the rule), every venture by the state into this field of private enterprise has proved to be a failure.

To refer to only a few examples:

The Ohio state fund insurance monopoly, by its bad service and unfair premium rating, has very recently driven employers to petition (by a vote of approximately 3,000 against 141) for its abolition. Yet, in propaganda, it is still being cited as perfection.

The Washington state fund insurance monopoly has been severely scored by its official examiners; yet, by its partisans, it is still pictured as crowned with a halo of sanctity.

The West Virginia state fund (which originally was nothing more nor less than a scheme to insure coal mine operators at the expense of other industries) promptly "went broke"; yet, as reorganized and despite its notoriously bad reputation with its Virginia neighbors, it is still pointed to with pride by its partisans.

The operations of the New York competitive state fund were found, upon official investigation, to have been very bad; yet,

instead of being abolished, it merely has been turned around behind a smoke screen of vilification of its competitors and, in spite of its bad record, is reproclaimed as an exemplar of the advantages of the state as a business agency.

Manifestly, these examples show that adverse experience does not check the movement for state exploitation, and that its inspiration is envy of the success of private business—the compelling urge of the state-socialist—and greed for the spoils that so often go with governmental operations.

The state-socialist has started with compensation insurance, but he purposed to end by having the state conduct all business, all commerce and all industry.

Who are the enemies? Who are the people who have been fomenting, guiding and aiding this attack upon private enterprise?

All communists and socialists, of course.

All spoilsmen, job-hunters and social parasites, naturally.

All professional reformers and political demagogues looking for a campaign battle cry, unreservedly.

Political pie-makers, pie-cutters and pie-eaters—all of them.

A lot of honest folks also.

And bureaucrats, generally.

But, as to bureaucrats, let me pause and discriminate. Those state insurance departments not required to conduct the business of insurance have stood, like warning beacons, against the evils and dangers that characterize state insurance—with nothing to gain other than the satisfaction of performing a public duty. The attitude of many of the state boards or commissions that administer the compensation law has, likewise, been entirely fair.

But in some states, because of an adroit combination of the administration of state fund insurance with the administration of the compensation law, the board or commission that administers such law has been identified with the state insurance venture. As a result, some of these boards and commissions, instead of assuming a judicial attitude, condemning and correcting the faults of all impartially, and seeking to develop sound and efficient indemnity to conform to the purposes of the compensation law, have developed into partisan propagandists of the state insurance they sell, and have administered the compensation law with the purpose of building up their

own insurance business and driving out or keeping out all competitors.

In a number of states also organized labor has been in the front rank in the drive for state insurance.

But I believe that labor is not a true enemy—at least not a confirmed enemy.

Now, and last, I come to employers—who, like insurance companies, are engaged in business for profit.

What help did they give to their comrades in the insurance business in opposing the opening rush of the forces of state-socialism?

At first, generally—but with quite a number of creditable exceptions—they helped not at all. Rather, they looked on with indifference, thinking it was our funeral, not theirs. May I suggest that, if they attend our funeral, on their way home they purchase burial lots for themselves?

I do not complain of that past mistake. Now, when they are beginning to feel what state insurance means to them and that it is only the first step in a broad movement against all private business, they are coming to our support. But there is yet weakness in the ranks of all private enterprise, of which I do complain.

In the "Plumb Plan" it was proposed that the railroads be taken over by the government and operated for the benefit of a single class (in that case the employees), the taxpayers at large to make good any loss. That proposal was drowned in the indignant protest of the people.

If, now, it should be similarly proposed that the state go into the print-paper business, bribing the consumers of print-paper to support the scheme by selling them the paper at 20 per cent below cost, the taxpayers to supply the deficiency, what would you think of those private consumers of print-paper who would jump for the bribe, and aid, abet and encourage the deal?

Form your judgment of them, and then apply that judgment to those employers, engaged in private enterprise for profit, who have welcomed the bribe of subsidized state-fund insurance, below cost, at the expense of the taxpayers and to the destruction of private insurance. Are they not the worst enemies of private enterprise—thoughtless mercenaries, willing to be bought up by the state-socialists?

When the evil day comes upon them, these supporters of

state interferences with business will as foolishly cry for mercy as did the young man, of whom we have all heard, who killed his father and mother with an axe, and who pleaded with the judge, after he had been convicted of murder, to be merciful with him because he was an orphan.

HEALTH INSURANCE GENERAL DISCUSSION

HEALTH INSURANCE¹

We are coming to recognize the fact that when the people of an entire state are subjected to certain risks which are measurable, it is good business to organize insurance through the instrumentality of the state, measure the risk, and pay the losses which happen at random to this individual or that. We have used this principle for many years without recognizing it as social insurance. Nearly every state provides a fund by the taxation of dogs from which the losses to sheep owners are paid. We have established the principle in insurance of bank deposits now in force in a number of states whereby a fund is collected from the banks in order to pay the losses to depositors through bank failures. Still later, we have applied in some states the same principle by the collection of funds from a tax on agricultural lands to pay the losses from hail. North and South Dakota have done this on a state-wide basis, as have also some of the Canadian northwest provinces.

Lastly, we have recognized that state-wide insurance of laborers against accident is a simple, practicable, and certain way of distributing the economic shock of accident. In a few states this principle is applied through the creation of a single state fund from which the unfortunate victims of accidents draw a part of their compensation and are provided with medical and surgical care.

These simple statements of the application of the insurance principle voluntarily and also on a social basis are made here for the purpose of clarifying our thinking at the outset on the subject of health insurance. They are too often overlooked. Some folks would make us believe that the proposal for social health insurance is some new, absurd proposition which has been evolved in fantastic minds, when, as a matter of fact, its

¹ By John A. Lapp, Managing editor of Modern Medicine. Monthly Labor Review. 9 : 938-44. September, 1919.

coming is nothing but the evolution of sound social and business sense. Health insurance proposes to collect a fund from which the losses of sickness can be partly paid and medical treatment provided on a universal scale. The only problems involved are the measurability of sickness and the organization of the scheme.

We have plenty of evidence from every quarter to show that sickness is measurable. We know with fair certainty how much severe sickness will occur in a large group of people every year. We know what that loss entails in the way of lost wages, and we can readily measure what the necessary medical care will cost. In fact, we know far more in these respects about sickness insurance than we knew about accident insurance when workmen's compensation laws were put in force, and we know infinitely more than the people who started fire, life, marine, casualty, fidelity, and burglary insurance ever knew about the losses from these causes before they successfully established insurance.

In fact, we have a very good measure of the amount of sickness which occurs in any normal group of working people. All the evidence, which appears to be overwhelming, shows that each worker suffers about nine days' sickness every year, and that 2½ to 3 per cent of the people are sick at all times. The findings of the health insurance commissions of Illinois, Ohio, Pennsylvania, and Connecticut, from a study of 131,000 cases of disability, showed that 20 per cent of the workers suffer a disabling sickness every year, lasting for more than seven days. These figures show that the cases of sickness lasting more than seven days averaged about thirty-five to thirty-seven days each. These figures are borne out by innumerable investigations, and particularly by an unpublished study of the Workmen's Sick and Death Benefit Fund of America, New York City, made by the United States Bureau of Labor Statistics, and by studies of the Federal Industrial Relations Commission and of the United States Public Health Service.

Not only do we know how much sickness occurs in the group but we know with fair exactness how this sickness falls on the different people in the group. It appears that 20 per cent of a normal group will suffer a disabling sickness lasting more than a week; that about 65 per cent of those that are sick will be disabled for less than thirty days; that nearly 20 per cent will be sick for four to eight weeks; that 6 per cent will be sick from

eight to twelve weeks; that 3 per cent will be sick for more than six months; and 1.3 per cent for more than a year.

We know further that sickness varies with age and that it falls more heavily as men grow older. The exact figures as shown by the Workmen's Sick and Death Benefit Fund of America are as follows:

CASES OF SICKNESS LASTING MORE THAN SEVEN DAYS

Age	Average compensated days	Length of time (days) each case
20 years.....	3.0	22.9
25 years.....	3.1	29.4
30 years.....	3.7	32.6
35 years.....	4.8	39.6
40 years.....	4.3	35.0
45 years.....	4.5	35.1
50 years.....	5.6	39.1
55 years.....	7.1	44.0
60 years.....	8.6	49.5
65 years.....	9.1	49.4
70 years.....	15.1	65.9
Total....	5.1	38.0

We know, too, that sickness varies according to occupation, in some occupations rising to two and three times the rate of other occupations. We know also that there are some variations according to sex. These facts we know with fair exactness. They are not disputed by any intelligent and honest person.

We have, then, here the proper basis for the establishment of an insurance system. We know pretty nearly how much sickness there is going to be among a million people. We know very nearly what the sickness will cost. All we need to do is to apply the same principles which we have already applied in other respects and provide for the distribution of the burden of sickness on a communal basis. It is not a leap in the dark. It is not a blind attempt to do the impossible. It is simply the application of well-known and well-established business principles to the solution of the problem which hangs as a cloud over the lives of the people. We know how much sickness there will be in a group, but we do not know upon which individuals the cost of sickness will fall.

What are the plain results of sickness? It hardly seems necessary to repeat them, and yet there are those who would deny even the simplest truths when those truths are inconvenient to them.

Sickness drives people from a higher to a lower standard of life. It drives people from independence to dependence. It keeps thousands on the brink of poverty and it keeps millions in the fear thereof. When the wage-earner is taken sick, his wages stop. Rarely are wages paid beyond the hour when the man quits work. But his expenses do not stop—they go on and increase. To them are added the cost of medical care, if the man does not immediately seek charitable aid. Slender resources are soon used up. Everyone who appears to have the slightest presumption of knowledge is very well aware that the rank and file of working men are only a brief space away from economic distress. Perhaps the man has some personal credit or some helpful friends, but even the benefits of these are soon used up if the man happens to be one of the million and a half who are sick for four to eight weeks, or of the two hundred and thirty thousand who are sick for more than six months.

The next resort is the chattel loan. Here we find that 35 to 50 per cent of loans are due to sickness. The next resort is the associated charities. Here again we find that 35 to 50 per cent of applications are due to sickness. The last resort is outdoor public relief, of which we have very little satisfactory statistical evidence. We found in Ohio, however, that 30 per cent of the people in county infirmaries had been reduced from independence to dependence by sickness, resulting in their going to the poorhouse and that 40 per cent of the old people in private "homes" were there because of the calamity of sickness at some time in their lives.

Health insurance merely attempts to stop this steady decline from a higher to a lower status. It is intended to insure people who are now independent and to keep them from going the downward path toward the brink of poverty. It is intended to stabilize society above the poverty line so that from this one cause fewer people shall descend in the scale of life. No one can study the figures on this subject and reflect upon the facts disclosed without being convinced of the necessity of something

to prevent the decline in human values and no one can understand insurance principles without being convinced that the solution of the problem rests in social insurance.

The question is raised at this point: "Why make it compulsory; why organize it on a universal scale?" "Why not leave it to voluntary action?" The answer is simple. If it is left to voluntary efforts it will cost far more than it would as a social enterprise. The cost would in fact be more than doubled. We have the example before us of the burial insurance companies which have been insuring people against a pauper burial on a voluntary scale. They probably manage their business well—no one has lately charged them with a lack of efficiency. During the last three years they have collected \$448,000,000, and have paid in death claims, \$148,000,000, or about 33 per cent of the amount collected. The people have paid for the privilege of voluntary burial insurance in the last three years the sum of \$300,000,000 over and above what they were paid for burials. The casualty insurance companies on a voluntary basis have collected in the last twenty years \$402,000,000 and have paid in losses \$175,000,000. Nearly 56 per cent of this enormous sum goes for the privilege of regaling ourselves with voluntary insurance.

Workmen's compensation insurance companies in the last five years have received \$125,000,000 and have paid \$55,000,000. Mutual workmen's compensation funds have received \$17,000,000 and have paid \$7,000,000. Commercial health insurance companies in fifteen years have received \$74,000,000 and have paid \$33,000,000.

These huge sums of money have been sacrificed to the principle of voluntary insurance. Set over against them is the record of the Ohio Workmen's Compensation Insurance Fund, operated on a state-wide compulsory basis, which shows a charge of 3½ to 5 per cent for the conduct of the business. A pencil and a piece of paper will very quickly tell you what we have paid for the privilege of having voluntary insurance. Universal social insurance removes the cost of solicitation, removes the profits of insurance carriers, removes the absurdly high salaries of insurance officials, and in many ways makes the money of the insured go further in providing him the benefits which he needs in a time of calamity.

The extent to which voluntary health insurance is now purchased is the best evidence of its probable failure to meet the need for universal insurance. Only about 33 per cent of the workers carry any health insurance. Such insurance as is carried amounts to \$5 to \$7 a week for about thirteen weeks and practically no medical service. In the United States only about 3 per cent to 5 per cent of losses is distributed by health insurance. There is no evidence that outside of the larger establishment funds, medical and cash benefits can ever be so combined and organized as to be effective.

The facts of the case from beginning to end, with scarcely a single exception, point to the desirability of establishing a state-wide human depreciation fund by the collection of premiums from those who are responsible for sickness and for its care. We know now who those parties are. It is perfectly clear that industry is responsible for some diseases, the individual is responsible for some, and the community is responsible for some. It is equally clear that two or more of these factors combine in certain other cases to cause sickness. It is perfectly clear that the line cannot be drawn where industrial responsibility stops and individual responsibility begins, or where the community responsibility begins or ends. Tuberculosis, for example, is caused by a combination of two or more of these factors. A study in Cincinnati by the United States Public Health Service indicated that in four hundred and forty-two cases, 18 per cent were due to industry; 32 per cent to heredity; 10.8 per cent to temperance and vice; 9.7 per cent to housing; and the rest from undefined causes. This is merely illustrative of the interrelation of causes of sickness. No one can honestly say or believe that industry and the community should not share with the individual the cost of sickness. We have heretofore put the principal burden—in fact, practically all of it—on the individual. It is time that our social conscience be awakened from its slumber and having taken cognizance of the awful consequence of diseases, that we shall join in a large cooperative undertaking for the creation of a fund through the payment collected from causative factors, so that the burden of sickness shall not fall as it now falls—upon the individuals who happen to be sick and at a time when they are least able to bear the extra burden.

It seems almost incredible that anyone would here raise the question of cost. It seems absurd to mention it in this paper.

There are thousands, however, who make the absurd claim that health insurance will be so costly as to overwhelm us. Figures are cited to make this loss appear even more excessive than it is. How childlike the simplicity of such people. If sickness is costing \$2,000,000,000 today, somebody is bearing it, and who is that somebody? If the burden is too great for the whole society to bear, it is a pretty fair evidence that it is altogether crushing for the few who must now bear it. If it be true that health insurance would cost too much, then the social order is bankrupt. It is even worse than bankrupt because it compels the weakest portion of society at the time they are weakest to bear the impossible burden which it is claimed cannot be borne without serious disaster by society as a whole. Such arguments reduce to absurdity. Health insurance means the redistribution of a burden which now falls unevenly. It does not cost money, it distributes cost already in existence, and it does it without doing harm, as has been shown in all countries, even our own, wherein we distribute certain burdens by means of social insurance. The load of sickness is comparatively easy to carry when it is distributed over the whole body. The soldier who would attempt to carry his burden attached to his feet would not get very far; even if he carried his burden in his two hands he would soon tire out. Distributed scientifically over his entire body, he carries it with comparative ease. We are carrying our sickness burdens around our feet. It is time that we distribute them scientifically over the entire body.

COMPULSORY HEALTH INSURANCE¹

To the general principle of health insurance, voluntarily conducted and established on a commercial basis, no one will take exception. We have come to look upon the health insurance of the people with small incomes as just as legitimate a part of their plan of life as either death or accident insurance or a credit or wage system. It is only when the idea of compulsion is applied to it that we have any serious cause for doubt. This is the starting point of all general objections.

It is acknowledged that the simplest forms of voluntary

¹ From article by Howell Cheney. North American Review. 209 : 490-8. April, 1919.

health insurance cost the average working man from two to three times per \$100 of insurance what the same protection per \$100 would cost in units of \$10,000. It is primarily from this angle that a feeling of opposition to existing insurance arises in the workingman's mind. We are probably within the truth in stating that 40 to 50 per cent of the premium is an inevitable and necessary carrying charge upon the business of commercially insuring under a voluntary plan great masses of laboring men for small amounts against disabilities arising out of sickness and death.

Our commercial organizations, further be it remembered, have only successfully tackled the problem of group insurance, or of insuring as an averaged unit a large number of individuals, as applicable to the hazard of death. In insurance against death they have succeeded in removing one of the insuperable obstacles of expense by treating great groups as units and by looking to the employer to pay the premium in one lump sum. Even here it is predicted that the experiment is doomed to disappointment, if not failure. It may be sound as an insurance proposition. It has not been tried on any considerable scale except where the employer has paid either the whole or a very large share of the premium and has practically given the insurance as a bonus, gift, or charity to his employees. The underlying motive has been the expectancy of attaching his employees to him by the prospect of reserves accumulating in proportion to the years of service. This motive may work as long as its application is exceptional with higher classes of employees, but has obviously a weakened power as it is generally adopted. It is at bottom a false motive and any employer who expects to solve his wage problems on the basis of either charity or gratitude has only himself to blame for the failure he is courting through dangerous temporizing.

While voluntary and mutual plans of sickness insurance can succeed within a certain field where either the employment policy or the social basis of selection gives a fair average risk, compulsion will automatically add four most important factors to this class of insurance. (1) A true average of the risk. Under any voluntary plan there is an inevitably higher probability of securing a poorer average risk. (2) Economy in administration through the forced collection of premiums at the source of the income, thus eliminating all expenses of agents and solicitation,

and minimizing the expense of investigation and the payment of claims. (3) Under a compulsory system a much higher degree of discipline can be enforced against doubtful claims, thus reducing malingering. Under a voluntary system it is almost impossible to enforce necessarily rigid rules for the protection of all where they happen to exclude individuals who have failed to comply with the requirements through carelessness or indifference. The necessary physical examinations for both membership and benefits are freed from many difficulties when they are enforced legally. (4) Only full legal compulsion will remove the suspicion and distrust with which the majority of laboring men view any attempt of either employers or philanthropists or commercial agencies to promote an insurance of their disabilities.

Because we all of us accept the principle of insurance, practically without opposition today, we often do not stop to analyze the elementary character of the economic reserve that it gives us. The ordinary average workingman is found to lose on an average of from seven to nine days a year from sickness. If he wishes to protect himself against half of the average loss of wages, he has to provide an insurance reserve of, say approximately, half of his wages for nine days, which will cost him from \$10.00 to \$15.00 in premiums a year. This is only true in the event that the loss is an average loss and covers not one individual, but groups of individuals large enough to secure an average loss. As an individual, if he wishes to give himself an equal protection, he has got to provide a fund which would give him half wages during disability, besides providing death benefits of half of one year's wages and medical attendance. It is estimated that the man who is earning \$4.00 a day, if he is uninsured should have reserves behind him of approximately \$1,500 to \$2,000. As an individual, no smaller reserve will give him the same protection that premiums of from \$10.00 to \$15.00, distributed over the whole year, will guarantee. If the man has neither the individual surplus nor the insurance guaranteeing protection when adversity overtakes him, he and his dependents must immediately come down to a lower scale of living, and weakened by ill health he must again shoulder the problem of subsistence for himself and his family, not only with reduced physical strength, but with no material resources to fall back on. It is not surprising that he falls a prey to discontent

on one hand and on the other gives himself up, either from ignorance or from superstition, to all sorts of fake remedies and quack doctors.

We have come to look upon insurance as a moral duty, which a man with very material resources behind him owes to his dependents to prevent their being thrown upon a lower scale of living when his immediate income stops. If they are subject to a moral obligation in order to prevent a break in the hopes and aspirations of their children, what is the condition of those to whom the sudden cutting off of support means not only the blotting out of hopes and aspirations, but perhaps of subsistence itself?

To the workingman then, sickness insurance is not the luxury that it is to the man of higher income, which allows him to go about his work with a more comfortable feeling of mind that he has not got to pinch himself in any material comforts when some of the major hazards come upon him. To the workingman without capital behind him, it means immediately tackling life from a lower plane with less physical strength and with less food, and hence, with less courage and with infinitely less chance of success. The possibility of creating the necessary reserves seems to inevitably and of necessity depend upon the compulsion that will automatically place this reserve behind him. It is well enough to assume that the workingman ought to do it voluntarily. It is unquestionably proven that he will not do it voluntarily. Can he even be expected to do it voluntarily when it is acknowledged that the existing voluntary agencies are either wasteful in administration or unsound in principle? The only relief in sight which will practically work is to compel the deduction at its source of a percentage of wages sufficient to cover the average risk and to so safeguard the essential principles of insurance and the investment of these funds as to guarantee the relief in the hour of need.

The objection is raised that no automatic system can take the place of individual thrift; that the paternalistic or socialistic attempt to compel a man to do what he ought to do for himself is foredoomed to failure and makes for dependency and shiftlessness. Space does not permit of quarreling with the theory of this contention. We can only face the facts which are apparent

to all—that the average workingman who is earning less than \$1,000 a year does not save and has no reserves behind him. We are all vitally interested in this fact and would like to mitigate it and explain it away if it were possible to do so. If you accept it as a fact, will you veto the application of a principle which you know to be sound in your own life, if this application can only be effectively and broadly secured by compulsion? Will you veto it if you realize that for small incomes especially the insurance principle has a far sounder economic basis than the pure savings idea? He who saves in order to meet a future disability must have a long time in which to do it and exercise great self-sacrifice in saving and skill in investing. He is finally the greater speculator in futures. To lay by, say \$100, a year out of \$1,000 he must have the ideal combination of four factors:—time, self-sacrifice, investing skill, and a justifiable spirit of adventure. And, if he dies at the end of one year, he leaves but \$100, but if he insures he leaves his heirs \$1,500. The saver is an isolated adventurer. He cares only for himself. The insurer is in strong contrast and rests himself upon the principle of combination and cooperation with all those who are exposed to the same average degree of risk. If this principle is sound for larger incomes, it is beyond dispute for those who are living close to the line of subsistence.

We must first, however, insist that in the enforcing of this principle under compulsion, we can only avoid unreasonable individual injustice if it is limited to groups who are subject to a similar degree of risk. As long as the hazards which are averaged are fairly within the common experience of all of the members of a group, there is no injustice in compelling contributions to a common fund. It is only when it is proven that "A," in contributing to relieving "B's" disabilities, is contributing to a far higher average of risk than he is himself subject to, that injustice occurs.

If we are willing to agree to the idea of compulsion, when limited to groups of a like average of risk, can we bring this compulsion into harmony with our social and legal philosophies?

If it is a part of our political, as well as our moral creed, that it is the duty of every individual to support himself; and if it is the duty of the state to protect itself as far as possible from

dependency, why cannot the state compel the individual to actually perform what is recognized to be his universal obligation? We certainly are not willing to give up lightly the immense benefits and liberties that individualism has brought us. We believe in individualism and are going to continue to fight for it. Is it then a contradiction that we are willing to make some sacrifices to accomplish a higher degree of individual support on this earth, here and now? Shall we actually enforce the fundamental duty of self-support in the only practical way it can be accomplished, i.e., by the compulsory contribution to a common fund of all those who are subject to a like degree of economic risk, or shall we continue to attempt the impossible—the salvation of the derelicts of our individualism through the deadening influences of charity and poor relief?

Social workers and socialists exclaim with impatience against the restraints of constitutional limitations in working out social reform. It is confidently believed, however, that we can find methods of working out this reform under constitutional methods and that in so working it out with strict regard to both individual rights and responsibilities, and under strict observance of sound and tried insurance principles, we will immensely increase its power for social upbuilding.

We would first lay it down as a fundamental and universal obligation of every man and woman of legal age, to provide during their working days for their own self-support during disability and temporary support for their dependents at their death. This is laid down not merely as a moral theory for general guidance, but as a fact of economic necessity, which the state is justified in enforcing. It is foreign to the method of development of the theory to insist that the state must do this to protect itself from dependency, but, if this theory gives the lawyer an added comfort, we need not object to it, unless it necessitates looking upon the exercise of this duty as an exercise of the police power, and the relief as poor relief and charity.

The method of enforcement should logically be through the imposition of an income insurance tax, pro-rated exactly upon the incomes of all classes of individuals within the state who were engaged in any form of labor for profit, i.e., upon all those who had any incomes, without respect to the character of

their employment, but with certain obvious and reasonable exceptions, as the theory of the law permitted.

It is fundamental to the purpose in mind that both premiums and benefits be rigidly fixed in relation to income. So also must all individuals be classified according to those who are subject to a like degree of hazard. Only by observing these elementary principles of sound insurance can we guarantee that the compulsion does not bring about the taking of property inequitably from one class of individuals for the support of another class. Also, if we neglect these principles, we shall lose sight of the individual's rights and responsibilities upon which our foundations rest, and will forfeit one of the most valuable influences of such an undertaking—the safeguarding and protection of the health of groups so that the cost may be reduced or the benefits increased. So far the proposal has allowed for the greatest freedom of the individual in placing his insurance and has emphasized the necessity of the fulfilment of the individual's duties. The removal from any individual or class of an obligation, which clearly rests upon them, for the social betterment of another individual or class must inevitably fail of its purpose.

In the case of insurance, there can be no question but that a relation of dependency of the people upon the state will develop if the individual benefits derived are not purchased by proportionate individual sacrifices. If this is true as regards the receipt of benefits, it is more than true as regards the remedial and curative effects, which should be the most valuable factor to the state of such an insurance plan. Unless individual sacrifices will make for a reduction of the burden of the cost, there will be no incentives upon either individuals or groups to apply the preventive and protective measures which the modern conception of medicine has made available. The greatest benefit of the workmen's compensation law socially has not been in the benefits or compensation paid. It has been in the more direct incentive to prevent accidents, which has been a great economic saving, particularly among self-insurers. So in sickness, if the relation between the cost and its avoidance can be kept simple and direct, the incentives toward the scientific prevention of disease will be powerfully multiplied. We do not appreciate the amount of the cost at present. The first step is to visualize

the cost by definitely locating it; the second is to establish more definitely the responsibility for its existence; the third is to apportion justly both the cost and profit for its reduction.

BRITISH NATIONAL HEALTH INSURANCE ACT OF MAY 20, 1920¹

The British national health insurance act of May 20, 1920, which came into force on July 5, 1920, made a number of important changes in the health insurance system described in the Monthly Labor Review for January, 1920, p. 45-59. These changes are so numerous that a brief restatement of the system is the simplest way of presenting them.

Industries and Occupations Included

The system includes in the compulsory insurance two groups of persons: First, all persons, men and women, 16 years of age and over, under any contract of employment for which remuneration (in cash or in kind) is paid and whose employment is manual in character; second, a similar group of persons whose employment is non-manual in character, if their total income is less than £250 (\$1,216.63, par) annually. Persons 70 years of age or over are not required to insure and insured persons on attaining 70 may not receive pecuniary benefits, as the national old-age pension system benefits begin at that age.

The persons exempt from insurance are those who have rights to sickness and other benefits (the equivalent of those provided by the national system) from certain specified sources, such as those insured in approved establishment funds, teachers' funds, railway benefit funds, etc. Another group which may be granted exemption on application to the authorities consists of persons who can show that they are in receipt of a pension or income of the annual value of £26 (\$126.53 par) or more and not dependent on their personal exertions for their livelihood, or that they are ordinarily and mainly dependent on some other person for their support or that they are dependent for their livelihood on earnings derived from an occupation which is not employment as already defined.

¹ From article by Henry J. Harris. *Monthly Labor Review*. 11 : 405-15. September, 1920.

Casual employments are exempt unless the employment is in the regular line of the employers' trade or business.

The above refers to persons required to be insured. Voluntary insurance is permissible only for those persons who have been insured for two years or more; originally the law permitted persons of the same general economic status as those compulsorily insured to apply for state insurance; as only a small number of persons applied for voluntary insurance under this clause, the permission was withdrawn, to reduce administrative costs.

The act of 1920 made no change in the above provisions.

Disability Provided for

The insurance provides relief for inability to work due to some specific disease or bodily or mental disablement; the pecuniary relief commences with the fourth day of such incapacity, while the medical relief must be provided from the beginning of the sickness. The law recognizes two types of disability: First, that usually termed temporary disability; second, that usually designated as invalidity. The first named type of disability includes cases lasting less than six months in a year, and the second includes cases of longer duration or even life-long disability. The system is therefore a combined sickness and invalidity insurance system.

Benefits must be paid in case of disability due to accidental injury, but the insurance carrier is entitled to reimbursement from any person liable for damages or compensation and may bring action in the name of the injured person for such reimbursement if it desires.

Disability due to childbirth receives a pecuniary benefit but not the medical benefit. Both the insured woman and the uninsured wife of an insured man receive this benefit, but in varying amounts.

Venereal diseases due to misconduct are entitled to medical benefits, but the payment of pecuniary benefit rests with the carriers of the insurance; some of them provide all benefits.

The law of 1920 made no changes in the above features.

Benefits

The law of 1920 made several important changes in the benefits of the system.

The benefits provided are divided into two groups: First,

the medical benefit, administered by the "insurance committees"; and second, the pecuniary benefits, administered by the "approved societies."

The benefits are (1) medical benefit; (2) sanatorium benefit; (3) sickness benefit; (4) disablement benefit; (5) maternity benefit; (6) "additional" benefits. It will be noted that there is no funeral benefit.

MEDICAL BENEFIT

This was not changed by the act of 1920. It consists of such medical treatment and attendance as can, consistently with the best interests of the patient be properly undertaken by a general practitioner of the usual professional skill. It includes the provision of medicines and of such medical and surgical appliances as are authorized by the insurance authorities—that is, by the Ministry of Health for England and Wales, and the corresponding authorities in Scotland and Ireland. As soon as a person is accepted as a member by an approved society this benefit becomes available without any waiting period. It must be provided immediately on the beginning of the disability. It includes treatment and attendance in respect of tuberculosis.

There is no medical benefit in Ireland and the contributions there are smaller on this account.

If the insurance authorities are satisfied that the insured persons in any area are not receiving adequate medical service, they have power to make special arrangements to provide such service, or they may allow the insured persons to provide themselves with medical service and reduce the contributions sufficiently to pay for it.

SANATORIUM BENEFIT

The act of 1920 provides that this benefit (except in Ireland) shall be removed from the insurance system during the year 1921 and placed in the charge of a new public health service system, the law for which is now being drafted. There is to be no hiatus between the present and the new system. As at present administered by the insurance committees, the benefit consists of treatment in a sanatorium, or similar institution, or at home, for insured persons suffering from tuberculosis or such other diseases as may be designated by the Ministry of Health. At the present time, the benefit is restricted to tuberculosis cases.

This benefit is provided by having the insurance committees make arrangements with the local authorities to provide the facilities for the insured patients in the institutions conducted by these authorities for the general population. The benefit is therefore linked up with the general provision for tuberculosis cases and the future arrangement will be a total transfer to the new system which is to be part of a nation-wide campaign against this and other diseases.

SICKNESS BENEFIT

Under the 1920 act, this benefit has been increased about 50 per cent for men and 60 per cent for women. The following table shows the changes in the rates introduced by the new law:

CHANGES IN RATES OF BENEFIT INTRODUCED BY THE ACT OF 1920¹

[Shilling at par—24.3 cents; penny—2.03 cents.]

	Men			Women		
	Before July 5, 1920	After July 5, 1920	In- crease	Before July 5, 1920	After July 5, 1920	In- crease
Benefits:						
Sickness, per week.....	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.
10 0	15 0	5 0	7 6	12 0	4 6	
Disablement, per week...	5 0	7 6	2 6	5 0	7 6	2 6
Maternity	30 0	40 0	10 0	30 0	40 0	10 0
Annual charge upon insur- ance funds toward the cost of—						
Medical benefit	6 6	9 6	3 0	6 6	9 6	3 0
0 9	0 0	(²)	0 9	0 0	(²)	
Sanatorium benefit						

This benefit is usually a weekly sum paid while the insured person is rendered incapable of work by some specific disease or bodily or mental disablement of which notice has been given; it commences on the fourth day of such incapacity and continues for not more than 26 weeks. If the disability continues for more than 26 weeks, the disablement benefit (described below) then begins. The two benefits cease when the age of 70 is reached, as the old-age pension begins at that age. The sickness benefit is payable only after the contributor has been insured

¹ Ministry of Health. Report by the Government Actuary upon the financial provisions of the Bill of 1920. London, 1920. [Cmd. 612] p. 3.

² The withdrawal of the sanatorium benefit from the act is equivalent to the reduction of liabilities by 9d. (18.3 cents, par) per annum for each insured person.

26 weeks, for which 26 contributions have been paid. During the first two years of his insurance, a contributor receives a lower rate of benefit.

Sickness benefit is not paid to an insured woman who has filed a claim for maternity benefit. As some supervision of beneficiaries is always necessary, sickness benefit is not paid while the member resides outside of the United Kingdom. Likewise, the benefit may be suspended if the illness was caused by misconduct or if recovery is delayed by failure to observe the prescribed rules.

During arrears of contributions, the amount of the benefit is gradually reduced in proportion to the extent of the arrears. If a person ceases to be insured, he is then given a "free year's" insurance—that is, all benefits are continued without any payment of contributions. If a person again becomes an insured person, he is then treated exactly as if he were a new entrant.

Contributions are not payable while a member is in receipt of sickness or disablement benefit.

DISABLEMENT BENEFIT

The 1920 act increased this benefit 50 per cent. It consists of a periodical payment in case of an illness or disablement which has exhausted the sickness benefit. The weekly rate is now 7s. 6d. (\$1.83, par)—formerly 5s. (\$1.22, par)—for men and women alike. Payment begins at the end of a waiting period of 104 weeks after entrance, for which that number of contributions has been paid. The benefit begins immediately after sickness benefit ceases and is continued during incapacity, continuing to age 70, if necessary.

MATERNITY BENEFIT

The rate of this benefit has been increased by the act of 1920. The benefit consists of a lump sum, payable after contributors have been insured for 42 weeks. An insured man is entitled, on the confinement of his wife, to receive from his society the sum of 40s. (\$9.73, par)—formerly 30s. (\$7.30, par)—the benefit being the wife's property. If the wife is also insured, she is entitled to receive from her society a further sum of 40s. (\$9.73, par)—formerly 30s. (\$7.30, par)—making in all 80s. (\$19.47, par). In order not to place in an unfavorable position the insured woman whose husband happens to be

uninsured, the double benefit of 80s. (\$19.47, par) is paid to her also, in this case the entire amount coming from her society. An unmarried woman is entitled, on confinement, to a benefit of 40s. (\$9.73, par).

The maternity benefit does not include medical attendance or medicines, nor may the beneficiary receive sickness benefit for four weeks after the date of confinement, unless there is some disability not connected with the confinement. An insured woman is required to abstain from remunerative employment for four weeks after confinement.

The benefit is payable even though the insured woman has already exhausted her 26 weeks of sickness benefit, or even if she is suspended from benefit on account of arrears. If the husband has been suspended from benefit on account of arrears or is otherwise disqualified the wife's society must pay the entire 80s. (\$19.47, par). What amounts to an increase of the benefit is the fact that no regard is to be taken of non-payment of contributions during a period of two weeks before and four weeks after confinement in the case of an insured married woman.

ADDITIONAL BENEFITS

The 1920 act makes a slight change in these benefits. Section 37 of the act of 1911 provides that where the actuarial valuation of an approved society shows that there is a surplus over liabilities, the society may provide, for its members or their dependents, certain benefits additional to those already described. The permissible extensions are listed in the fourth schedule appended to the 1911 act and consist in general of increases in the benefits given under 1 to 5 above, the provision of medical, etc., benefits to members of the family, an addition to the old-age pension, special grants to members in distress, etc. The 1920 act adds to these "such other additional benefits similar to those hereinbefore mentioned as may be prescribed."

The 1911 act specifically prohibits the use of the surplus for the payment of a funeral benefit.

As the first valuation of the societies is now under way, being made up as of the date December 31, 1918, the societies have not yet undertaken the provision of additional benefits.

Attention should be called to the fact that these are "flat" rates, being uniform for the whole group of insured persons,

without regard to earnings (with the exception noted below), or to age groups. The new law increases the employer's contribution 2d. (4.1 cents, par) per insured person, and the latter's contribution is increased 1d. (2.03 cents, par).

Prior to the new act Parliament paid part of the contribution of those receiving very low wages; in the future the employer will pay the entire contribution of this group, and there will be no payment from the national treasury. The low-wage-earners, of course, receive the regular benefits. The number of low-wage-earners has not been reported, but it is understood to be very small.

Financial Administration

The financial basis of the system was not materially changed by the act of 1920. The plan is based on a system of level premiums, that is, the contributions are uniform for all ages regardless of the greater sickness and invalidity rates of the higher age groups. With such flat rates, however, a reserve must be accumulated to meet the expenses for the benefits of the higher ages.

The rates of dues and the costs of benefits were computed on the basis of the system being self-supporting for a person becoming insured at the age of 16; the greater cost of benefits for persons over this age meant that at the start there was a liability estimated at about £87,000,000 (\$423,385,500, par). To cover this deficit, each person on entering has credited to him a theoretical credit, called a "reserve value." To redeem this credit, there is deducted from each contribution paid in respect of his insurance, a certain sum; prior to 1920, the amount deducted was: For men, 1 5/9 d. (3.2 cents, par); for women, 1 1/6 d. (2.4 cents, par). Under the act of 1920, it was necessary to increase these deductions and in the future they will be: For men, 2 1/3d. (4.7 cents, par); for women, 1 11/12d. (3.9 cents, par). Originally it was expected that the process of redemption would be completed about 1930; it is now estimated that this will occur about 1955.

An investigating committee of 1916 reported that sufficient provision had not been made to care for such unusual expenditures as an epidemic, occupations with unusually high sickness rates, etc., and recommended the creation of special funds within each carrier as a measure of reinsurance. This plan was

adopted in the act of 1918 by the creation of the "contingencies fund" and the "central fund." The latter is a general fund for the United Kingdom, while the former may be used only for aiding the individual carrier for whose account the sums are accumulated. These two funds are derived from deductions which were originally intended to be used for the redemption of reserve values; from the amounts given above for this purpose, the insurance authorities are directed by the act of 1920 to divert in the case of men, 2/3d. (1.4 cents, par) and in the case of women, ½d. (1 cent, par)—under the act of 1918, 4/9d. (0.9 cent, par) and 3/9d. (0.7 cent, par). Of these deductions one-eighth goes to the central fund, and seven-eighths to the contingencies fund. The national treasury adds to the central fund an additional sum of £150,000 (\$729,975, par), this amount being the same under the 1920 act as under the act of 1918.

These two funds may be drawn on by the societies to meet deficiencies shown to exist when the quinquennial valuation of the assets and liabilities is made. The first valuation is now being made and the results will be published late in 1920. No part of the funds, however, may be used to make good excessive costs of administration.

Besides these two funds, the act of 1918 (on the recommendation of the same committee) provided that Parliament should supply the means for a "women's equalization fund," to meet the higher cost of women's benefits because of disability arising out of child-bearing. The societies are granted 10s. (\$2.43, par) per married woman member under the act of 1920; previously the amount was 8s. (\$1.95, par). Under the 1920 act, it is estimated that the appropriation needed for this purpose will be £350,000 (\$1,703,275, par) annually, as against £280,000 (\$1,362,620, par) under the earlier laws.

The resources of the societies which act as carriers of the insurance are derived from the weekly contributions described above. The employer of insured persons, when making wage or salary payments, deducts the insured person's share from the wage, adds his own share and pastes insurance stamps of the required amount on the member's contribution card. These stamps are purchased from the post office, which turns the proceeds over to the insurance authorities, by whom the money is deposited in the national health insurance fund; there is one fund for England and Wales, and one each for the other two

countries. The societies then draw on this fund for money to pay benefits and administrative costs, in the same manner as one would draw on a bank account.

For expenses of administration, each society may have not to exceed 41d. (83 cents, par) annually per member (in regular standing) under the regulations of 1918; it is understood that this amount will be increased by new regulations to be issued in 1920.

AFFIRMATIVE DISCUSSION

BRIEF FOR HEALTH INSURANCE¹

The American movement for health insurance rests upon the recognition of the following points:

- I. High sickness and death rates are prevalent among American wage-earners.
 - A. The amount of disability due to sickness among wage-earners is high.
 - B. The industrial population has a high tuberculosis death rate.
 - C. Death from degenerative disease of middle life is prevalent among wage-earners.
 - D. An excessive infant mortality rate is found among the industrial population.
 - E. The general death rate among wage-earners is high.
- II. Better provision for medical care among wage-earners is necessary.
 - A. Wage-earners are unable to meet the expense of proper medical care.
 - B. Free hospital wards and dispensaries are not sufficient and are objected to by many wages-workers as charity.
 - C. Obstetrical and other home nursing care is insufficient.
 - D. Facilities for laboratory diagnosis and for consultation between specialists are demanded by the advances in modern medicine.
- III. More effective methods are needed for meeting the wage loss due to illness.
 - A. The wage loss due to illness amounts to millions of dollars annually.
 - B. Savings of wage-earners are insufficient to meet this loss.

¹ From article in American Labor Legislation Review. 6 : 155-236. June, 1916.

- C. Existing systems for insuring against the wage loss are not fulfilling requirements.
- IV. Additional efforts to prevent sickness are necessary.
 - A. The method of factory legislation and inspection has proven insufficient to secure hygienic conditions of work.
 - B. Infectious diseases are not being thoroughly prevented.
 - C. Deaths from degenerative diseases are rapidly increasing.
- V. Existing agencies cannot meet these needs.
 - A. Charitable institutions and organizations give no evidence that they can provide an adequate solution.
 - B. Establishment funds cannot meet these needs.
 - C. Commercial health insurance cannot be developed to meet these needs.
 - D. Fraternal insurance cannot meet these needs.
 - E. Trade union benefits cannot meet these needs.
 - F. Voluntary subsidized insurance cannot meet these needs.
- VI. Compulsory contributory health insurance providing medical and cash benefits is an appropriate method of securing the results desired.
 - A. Compulsory insurance presents advantages not offered by any other method.
 - 1. This method makes certain the insurance of all wage-earners who may reasonably be expected to require protection.
 - 2. Compulsory health insurance renders the expensive reserve fund of voluntary insurance unnecessary.
 - 3. Compulsory health insurance offers an opportunity for simplified and economical administration.
 - B. The proposed method supplies all the needs of the sick wage-earner.
 - 1. All necessary medical care will be provided for the wage-earner, including medical, surgical, and nursing attendance, hospital care, and necessary drugs and prescribed appliances up to the value of \$50 in any one year.

2. A cash benefit equal to two-thirds of wages will relieve financial stress during the illness of the bread winner.
3. The maternity benefit provided for the wives of insured workmen and for insured women will supply a pressing need.
4. The funeral benefit provided by this bill meets one of the industrial worker's most deeply felt needs.

C. The proposed method of dividing the cost among employer, employee, and state distributes the burden of sickness fairly and wisely.

1. The employer is partly responsible for illness and would benefit by its prevention.
2. The wage-earner is partly responsible for illness and would benefit by its prevention.
3. The state is partly responsible for illness and would benefit by its prevention.
4. The proposed distribution of cost will put health insurance within reach of those who otherwise would lack it.
5. The proposed division of cost between employer and employee offers the advantages of democratic control.

D. Health insurance will stimulate the needed campaign for the prevention of illness.

TRADE UNION SICK FUNDS AND COMPULSORY HEALTH INSURANCE¹

Trade unions, through voluntary action, have made attempts to provide forms of health insurance. While their actions may be regarded as purely experimental and have proven, in most instances, inadequate, yet they have been productive of much good. But the burden of taking care of workers who are ill and providing for them adequate hospital and medical service is altogether too great to be borne by these voluntary organizations. Besides, as a rule, those who need help most are those who fail to avail themselves of the benefits offered.

¹ By William Green, Secretary-Treasurer, United Mine Workers of America. Stone Cutters Journal. 32 : 5-6. April, 1917.

The greatest burden, however, borne by the members of voluntary organizations providing for health insurance, and that which makes it well nigh unworkable, is the cost incident thereto. This is the experience of each and all. There is no exception to the rule. The report of the officers of the International Typographical Union, dealing with this special subject and showing the cost of maintenance of the printers' home for aged and disabled members of the union, together with the benefits paid to superannuated members, proves conclusively that it is only a question of time when the financial burden necessary to meet the payment of the cost of maintaining the home and the compensation to be paid as invalidity and old age pension claims will be so great that it can not be continued.

And why should the working people themselves bear this financial burden? There is no good reason why the care of the sick, the aged, and the disabled among the working classes should be borne by the working people alone. Industry and society at large, should both be required to bear their share of this burden. It has been stated by eminent men who have given this subject much thought and who have investigated the matter carefully that a very large per cent of working people become permanently incapacitated because of lack of proper medical attention when ill. Even when the disability is not permanent the illness extends over unnecessary periods of time for this same reason.

Inasmuch as each worker is a social unit society is vitally interested in promoting and maintaining at the highest standard the efficiency of each worker. Loss of time, inability to work, the removal of each social unit from the field of industrial activity, means, in the last analysis, a distinct loss to society at large. Looking at this matter from this point of view it is clearly obvious that society is benefited by promoting and preserving the health and vitality of each productive social unit.

Any scheme of health insurance, invalidity or old age pensions, in order to be successful, equitable, and just, must provide, in my opinion, that the cost incident thereto be borne by employer, employee, and the state. The adoption of such a plan would impose a minimum burden upon all classes of society.

Objection has been raised by some representative men, prominent in trade unions, to any compulsory plan of health insurance,

invalidity or old age pensions. The chief objection advanced is that the compulsory plan interferes with the freedom of the worker and curtails his normal activities; that it deprives him of his liberties and takes from him certain inherent rights that should not be interfered with. Such an objection, at first, would seem well founded. In fact it was vigorously advanced when compulsory compensation laws were first proposed. Employers of labor entered most emphatic objection to the passage of a compulsory workmen's compensation law on the ground that it interfered with personal freedom and liberty of action. In human affairs there is no such thing as absolute freedom and liberty of action. In all the normal activities of life one must so regulate himself and his affairs as to have proper regard for the rights of others. Society has ordered, through legislation on almost all subjects, that the freedom and liberty of every individual must, in some degree, be surrendered. There is more or less compulsion applied to the conduct of all human beings in all walks of life. Industrial development and the interrelations of society will not permit any person, no matter what may be his station in life, to become isolated or live unto himself alone. The social order requires that each unit must discharge certain duties. The care of those among the workers who are ill, incapacitated, or who through age are no longer able to earn a livelihood, will not be voluntarily assumed. Therefore, as a matter of public concern and in the interest of the public welfare, compulsory legislation, requiring the assumption of such care, seems to be the only feasible plan to which we can resort.

Personally, therefore, I do not share the belief of some men that a compulsory plan of health insurance will be detrimental to the wage-earners. As above stated, I can conceive of no other plan which would be successful. It seems to me that the experience of voluntary action and voluntary organizations fully justifies such a conclusion. It is of supreme importance, however, that any legislation of this character, providing for health insurance and for kindred forms of social insurance, should be drafted and proposed only after careful study, investigation, and mature deliberation on the entire subject. Health insurance should provide for proper medical care and hospital service, also weekly financial benefits, so that the incapacitated worker and his family may be properly cared for during his illness.

Invalidity and old age pensions, it seems to me, ought also to be paid out of a fund provided by employer, employee and the state, and administered by the state. In fact, this whole scheme of social legislation, herein referred to, ought to be exclusively under state control and administered by state authority. Employers and employees, as well as the state, should be proportionately and properly represented upon the boards of administration. This would overcome much opposition to compulsory action because each group of society would be justly represented. This fact would inspire confidence in the plan and insure the fullest and heartiest cooperation.

HEALTH INSURANCE¹

It is a complicated project, so it is urged, destined to tax rather seriously the administrative capacities of the state. It is a burdensome project which will make the cost of production greater in the states that adopt it. It is un-American. Such are the chief objections that are being raised against the proposed laws. As for the first, the German Empire manages to administer a somewhat more complicated system insuring over fourteen million employees. Great Britain is successfully administering a system insuring a number of employees only a trifle less great. We are surely capable of handling our comparatively simple problem. As for the second objection, unless we are a decidedly more unhealthy people than the German or the British, the cost to the employer will not exceed 2 per cent of the wages bill. The industries of a state are hardly placed in jeopardy by a 2 per cent advance in wages, even if there is no return in efficiency. But anything that tends to improve the health of the working population is certain to advance the interest of the employer in some measure. Not improbably the employers' contribution to the health insurance funds will in the long run prove an excellent investment.

Let us fall back, then, on the objection that health insurance is un-American. It is un-American in the sense that it is new to America, as it was new to Great Britain four years ago and to all the world thirty-two years ago. It is a natural outcome

¹ New Republic. 6 : 200-1. March 25, 1916.

of modern industrialism, which is very much the same the world over, producing everywhere the same kind of industrial population, without land to maintain or roof to shelter them, with slender reserves for a rainy day, with the mutual-aid groupings of the earlier order shattered, and with health often weakened by urban life and factory strain. In America as in the older countries there are hundreds of thousands of workers to whom a week's illness is a serious embarrassment, a month's illness a calamity. One-third of the applicants for charity in New York State are driven to seek aid by sickness. Experts estimate the annual loss to our workers from sickness at three-quarters of a billion a year. Almost a war budget, it would seem, and thrown upon a class that finds it none too easy to make ends meet. But what makes the matter more serious, the burden is unevenly, perversely distributed. It falls more heavily upon women workers than upon men, more heavily upon the low-paid than upon the highly paid classes. To redistribute this burden so that the stronger will take their share seems not inherently un-American.

But redistribution of burdens is not the only object of sickness insurance. We have vastly more sickness than is necessary. Think of the thousands of men in our industry at the early stages of tuberculosis, of the other thousands just beginning to develop other organic lesions. They shrink from consulting physicians; instead, they rack themselves to pieces at their work, largely because they cannot afford to be ill. There is no need to dwell upon the enormous increase in volume of sickness resulting from initial neglect. It has been estimated that prompt medical attention would save our working class one-third of their days of illness—say, one-quarter of a billion dollars. It is hardly un-American to seek to check so huge a waste.

Health insurance in Germany has been the most powerful force making for the elimination of tuberculosis. Collective pressure is brought to bear upon the type of man, so familiar in every country, who goes about with the mark of disease upon him, yet fails to consult a physician, fearing the worst. The adoption of health insurance by Great Britain led to a national movement to control tuberculosis. According to Commons and Andrews, the British act brought to light a huge mass of suffering,

especially among women workers, that had never received proper medical or surgical attention.

THE OPPOSITION¹

The opposition to health insurance has made strange bedfellows. The lions and the lambs are lying down together, but, if I mistake not, the lambs will have to be renewed occasionally. The principal opposition comes from burial insurance companies and from casualty insurance companies. It needs no particular acumen to understand why. The fat sum of \$100,000,-000 in expense and profits annually on the part of burial insurance companies alone well accounts for their opposition. The sum of \$40,000,000 of profits and cost of administration in the case of casualty companies might well be taken as an indication of the reason for their opposition. These organizations with money to spend, mostly the money of the policyholders, have attempted to poison the minds of other organizations. They have organized associations with fictitious but high-sounding names and have subsidized others. They have flooded the country with literature, more than 75 per cent of which is false in its statement of simple facts. They have attempted to make the doctors believe that health insurance would ruin the profession, at the same time handing out honeyed phrases about sickness prevention, which, when analyzed, indicate that these same companies are attempting to lead the doctors to state medicine, wherein the doctor will become the employee of the state in preference to the organized scheme of medical practice which would prevail under health insurance. These same forces have tried to lead the great fraternal movement in opposition to social health insurance by making them believe that fraternalism was doomed. As a matter of fact not over 2 per cent of present losses from sickness are being carried by fraternal insurance orders. Surely, the great body of men whose inspiration is fraternalism would sacrifice, if sacrifice were necessary, the 2 per cent of sickness insurance which they now carry in favor of a social scheme which would take care of a large part of the rest.

¹ From article, *Health Insurance*, by John A. Lapp, Managing Editor of *Modern Medicine* and specialist for the Catholic War Council, formerly director Ohio Health and Old Age Commission. National Conference of Charities and Correction. 1919 : 442-7.

PREVENTION VS. INSURANCE?¹

"Prevention is the very antithesis of insurance." If the charge is true then the opposite must also be true, that insurance is the very antithesis of prevention. In fact, both statements are made with equal emphasis on the same page of this pamphlet.² It is very illuminating that the same argument is made most frequently by insurance representatives in discussing the problem of health insurance.

The purpose of the argument is quite obvious. Since we all want prevention of the ills and hazards that confront human existence (do we not?), we do not want insurance. And if the argument holds true of health insurance, why not of accident insurance, fire insurance, unemployment insurance or any other form of insurance for that matter? It is surely preferable that people do not die before reaching the ripe age at which time there should be no dependent children, than that they die young, leaving insurance money for their protection; it is better that property losses through conflagration be prevented, that able bodied workmen suffer no accident or disease, that they do not go idle for lack of employment, than that these losses occur and be compensated. Of all arguments advanced by interested opponents against health insurance, none are more dangerous because none are so subtle, so plausible, so seemingly in accord with the spirit of the times which demands a radical solution of social problems. Yes, and none are less honest, less sincere, less contrary to palpable facts and the demands of real life.

That it is better to prevent any loss, any calamity than to compensate for it, than to insure against it, is such an accepted truth that one almost blushes when called upon to discuss it. The obvious conclusion is that such calamities should by all means be prevented. But unless one seriously expects to prevent them all, how is the desirability of prevention to be used as a substitute for insurance? No matter how many fire losses are prevented by the fire prevention movement, how many accidents prevented by the safety first movement, and sickness by the health conservation movement, how does all that meet the problem of the burned house, the injured or ill and incapacitated workman? It is for these non-prevented cases that insurance is

¹ From article by I. M. Rubinow. *New Republic*. 15 : 364-7. July 27, 1918.

² *Sickness Insurance or Sickness Prevention?* Research Report no. 6, May, 1918. National Conference Board, Boston, Massachusetts.

urgently demanded. Would any one seriously argue from the necessity of prevention of fires or reduction of mortality to the uselessness of fire or life insurance? In any sound public welfare policy both prevention and insurance are urgently required. It is true that they represent two different methods of attacking social problems but where is the evidence that they are opposed to each other?

In order to argue that insurance is the antithesis of prevention it is necessary to prove not only that insurance has a different aim, but also that it is opposed to prevention, that it shows a tendency to increase the losses from the very hazards it aims to insure against. The subtlety of this argument lies in just this—that there is a modicum of truth, almost an obvious, bromidic truth in it. Prevention is a result of care, and care results from fear of loss; in so far therefore as insurance relieves of fear (as is the purpose of insurance to do) it may result in the slackening of care and lack of preventive effort on the part of the individual. We are particularly careful with our matches when our fire insurance has lapsed; and many an automobilist will refuse to drive until in possession of his liability insurance policy.

But is insurance really an antithesis of prevention? Is the relief of individual fear and the weakening of individual care the most important effect of the insurance contract? What is an insurance contract in essence anyway? The danger of loss is not eliminated but is transferred from an individual to a group. The loss through fire, the loss through death, the loss through injury, sickness or unemployment ceases to be an individual concern and becomes a joint concern.

Does this transfer stimulate or discourage preventive effort? How effective can the preventive effort remain when depending upon the individual only? Whether it be prevention of crime, disease, accident, or fire or any other hazard, it is through social effort that substantial results have been obtained within recent years. It is in efficient police protection and not individual prudence in staying home after dark that we put our hopes of safety. Regulation of dangerous processes, measures of public health, a sound employment policy, fire regulations—these are all social forces upon which we depend to make for a prevention of hazard, for a safer life.

Of course, individual care still remains and always will

remain an important contributing factor. But even individual care is encouraged through social channels. Thus are created the educational movements for safety first, health first, for fire prevention days, for fire drill exercises, etc.

If, then, social prevention either supplements or substitutes for individual prevention, what has been the effect of insurance in actual experience? Whether insurance has actually reduced or increased losses it is of course impossible to demonstrate statistically. There has been such tremendous increase in the factors creating hazards and losses that one is left to the unsatisfactory method of speculating as to what would have happened if there had been no insurance. But as to the preventive work carried on because of insurance there can be no doubt. Fire insurance has resulted in stricter building laws, in better fire extinguishing facilities, in development of automatic sprinklers; compensation insurance has given a tremendous stimulus to better industrial safety; health insurance in Europe has stimulated better care of the sick and convalescent (which of course is truly preventive work), and unemployment insurance has stimulated better provision for public employment offices.

Not a living manufacturer would accept this statement as reason for discarding his fire insurance or boiler insurance. But the pamphlet deals with sickness insurance for workmen. So by indirection, by innuendo, the sickness insurance proposals are discredited and instead a "thorough going investigation of the possibilities of sickness prevention under a definite national plan" is urgently recommended, and that of course is the time honored method of drawing the red herring across the path of any social reform urged for immediate adoption. Health insurance, with a substantial part of its cost from industry, is obviously a danger to be resisted; sickness prevention at public expense a much lesser evil—and moreover a thorough-going investigation on a national scale is a convenient way to postpone action for many years.

The stereotyped statement "even if it had worked advantageously in European countries the wisdom of its transfer to the United States where social and political conditions are so radically different would not necessarily follow"—does not possess much convincing power. It has been used against compensation. It is but a guaded paraphrase of the argument that health

insurance is "unconstitutional, un-American, autocratic, monarchic, Germanic, socialistic," etc. And furthermore it is difficult to keep a straight face while arguing that a social policy actually operating in Europe is too expensive for us.

It becomes necessary therefore to discredit European results of health insurance. And so the old argument is brought forth that the "average number of days lost on account of sickness, at least ostensibly, has steadily increased." And "the most reasonable interpretation of this rise in the sickness curve in Germany and Austria is that it reflects a growing tendency to malingering." The reader is not told that the figures quoted do not pretend to show the number of days *lost* on account of sickness, but the number of days compensated for. If an insurance system begins with a maximum benefit of thirteen weeks, and gradually increases it to a maximum of from twenty-six to fifty-two weeks, there will be a gradual increase in the average number of days paid for. That statistical error has been made hundreds of times, has been explained equally frequently, but still the cry of malingering offers a convenient argument for the opponents of social insurance, who naïvely enough do not even notice that the same argument would also operate against commercial health insurance which they frequently defend.

NEGATIVE DISCUSSION

LABOR AND SICKNESS INSURANCE¹

Sickness insurance! What is to be insured? What is sickness? Who is sick? Who is to decide when one is sick? Who is to say when one's sickness is his own fault? Who is to determine justly many questions in the matter of sickness? To what degree is sickness a mere matter of the mind? People of robust mentality ignore the aches and pains which frighten timid people. One's habitual attitude toward sickness counts for much. Some have the doctoring habit, some the patent-medicine habit, some the habit of ignoring what sends other people to bed. Under any form of sickness insurance, voluntary or compulsory, a certain proportion of the members of any group would quickly develop the habit, to be indulged in to the maximum degree, of being "on the funds." Among men and women whose social education has been obtained in this country, the majority would surely today avoid asking for sickness insurance benefits as they avoid taking unearned money in any form. What would be the effect in this respect after a decade of such a sickness insurance law as that of Great Britain? Character corrupting habits inevitably spread on opportunity. To reject what another man continually takes requires the stoicism of a strong nature. Expectations of what the state may do for one can be made to replace resolutions to do all that is possible for one's self. The trade union principle has been to contend for individual rights in facing the employer and with regard to the community, and to resent unjustifiable interference by either.

A fair statement of the present attitude of organized labor is that, in the case of sickness insurance, as with respect to many other propositions, it refuses to take a plunge in support of a project which is part of the program of socialism. Nor is it prepared to support without careful scrutiny measures drawn

¹ From address by James W. Sullivan, of the American Federation of Labor, National Civic Federation. Addresses Annual Meeting, p. 19. New York. January 30, 1920.

up by associations not in its membership; it will not approve of any law which will tend to break down its own systems of mutual assistance; it regards the degree to which the interposition of the state shall extend as a matter to be settled in favor of the principle of liberty of the individual; it resents an indiscriminate classification of wage-earners as objects of public relief; it looks to wider measures than sickness insurance in the social campaign for the reduction of the death rate, the prevention of sickness, the improvement of public methods of caring for the sick and finally for the general sharing of the burdens of sickness.

SOME FALLACIES OF THE ARGUMENTS FOR THE INTRODUCTION OF SOCIAL INSUR- ANCE INTO THE UNITED STATES¹

[*The following article is an abstract of an address delivered by Dr. Hoffman at the Seventeenth Annual Meeting of The National Civic Federation, held in New York City on January 22, 1917. The address as a whole was devoted to an extended critical review of the arguments brought forward in behalf of the present Nation-wide propaganda for compulsory health insurance of the wage-earning class.—Editor.*]

The entire agitation [in favor of compulsory health insurance in the United States] is artificial, ill-advised and thoroughly un-American. It is wholly unnecessary because the overwhelming majority of American wage-earners are fully able to provide for reasonable medical attendance and the cost of sickness in their own way and at their own cost. Compulsory health insurance substitutes coercion for voluntary thrift and imposes a direct tax on all wages, which may reach possibly as much as 5 per cent. The arguments brought forward in the brief of the American Association for Labor Legislation are irrelevant and grossly misleading. These arguments are based upon the conception that the majority of American wage-earners are so near to the poverty line as to require a subsidized form of poor relief under the disguised name of compulsory health insurance.

¹ By Frederick L. Hoffman, LL.D., Statistician, The Prudential Insurance Company of America. Former President, American Statistical Society. Economic World. n.s. 13 : 165-6. February 3, 1917.

Such legislation is wholly unnecessary, because the health conditions of the United States are better than those of any other large industrial country of the world. During 1915 the death rate of the United States was the lowest on record since the commencement of Federal registration. Truly enormous progress has been made in the sanitary condition of large cities; and during 1916, regardless of an extensive epidemic of infantile paralysis, the death rate of the City of New York was the lowest on record. The death rate is, broadly speaking, the equivalent of the prevailing amount of serious illness.

The social and economic condition of American wage-earners is unquestionably superior to that of the wage-earners of any other country in the world. American wage-workers, because of higher wages, are not under the economic necessity of subserviency to an undemocratic system or method of compulsory health insurance. Sickness in this country is not, by any means, of the economic importance to which it attains among the labor element of European countries. American wage-workers also have a wide range of personal credit, which permits of deferred payments in the event of serious sickness, for family support, as well as for the payment on account of medical attendance. Much more is to be gained by efforts in the direction of higher wages and shorter hours than by the establishment of compulsory health insurance. Accepting the estimate of \$800,000,000 as the annual economic loss on account of serious sickness among American wage-earners, it requires a wage increase of less than 10 cents a day to more than equal this amount. The normal rate of sickness among American wage-workers and their dependents does not exceed 3 per cent, and it is probably less than 2 per cent when allowance is made for industrial accidents, which are compensated for under workmen's compensation law. American wage-workers and their dependents have no difficulty in securing qualified medical attendance; and the claim made that a vast amount of charity and relief is on account of illness concerns chiefly that element of the population which is always near to, or below, the poverty line, and which would not derive any substantial benefit from compulsory health insurance.

It is extremely significant that this movement, which primarily concerns wage-earners and their dependents, should be strongly opposed by the American Federation of Labor. The demand for compulsory health insurance legislation has not come

from representatives of labor—whether organized or not—but chiefly from those who are not the representatives of wage-earners' interests. Most of the arguments are in the nature of socialistic fallacies, and it has well been said in the official year-book of the Social Party that "Whether health insurance is to become a real force for the betterment of the conditions of the wage-earner's life, or whether it is to remain, like the American compensation legislation, a mere sop to the wage-worker, will largely depend upon the activity of the socialistic movement." Compulsory health insurance is but the initial step toward the anticipated realization of a vast program of socialistic changes, which mean the replacement of private enterprise by governmental activity.

It is argued that enormous benefits will result from such legislation, in the direction both of pecuniary advantages to wage-earners, and of improvements in health and longevity. These results are to be obtained through a truly colossal bureaucratic machinery and what would be the equivalent of a state medical service. A vast system of espionage would come into existence whereby the doctors would supervise one another, the state would supervise the patients and the doctors, and endless confusion would result. The practice of medicine would become standardized to an intolerable degree of inferiority. The so-called choice of a doctor would soon, as a matter of cost, give way to compulsory medical attendance. The responsibility of health departments would be impaired by a confusion of functions. The alleged improvement in health would not materialize.

It is wholly untrue that the sanitary progress of Germany during the past thirty years is directly attributable to social insurance. Greater progress, as measured by a diminishing death rate from all causes and from all the preventable diseases, has taken place in the United States during the same period of time. There has been a greater reduction, particularly in the tuberculosis death rate, in this country than in Germany, regardless of the enormous governmental machinery there serving social insurance purposes. The medical profession, both in Germany and England, has been demoralized by the social insurance system; and a large amount of time which should be given to the consideration of proper medical questions and problems is now being devoted to interminable disputes as to rights and privileges, and duties and penalties, under the insurance acts. Week after

week the British "Medical Journal" gives publicity to the facts of confusion and conflict of professional interests arising in British medical practice from the operation of the health insurance law. There has not been any real health progress in England during the last three years, or since the National Health Insurance Act came into operation; nor has there been a measurable degree of intelligent cooperation with the national or local health administration. The marvelous sanitary progress of England during the last thirty years was secured without compulsory health insurance, just as this has been the case in the United States, Canada and Australia.

The true main object of compulsory health insurance is to establish an enormous bureaucratic machinery and bring about a further regularization, supervision and control of wage-workers and their dependents. The cost, which is alleged to be small, will be large, but its incidence will be so distributed that it will be difficult to prove the additional economic burdens, which will fall heavily upon wage-earners and their dependents. The alleged benefits in medical practice will not be realized any more in this country than they have been realized in countries where social insurance has been established and been in operation for many years. There has been no greater progress in medicine as a healing art in Germany than in this country. The apportionment of cost of 40 per cent to industry and 20 per cent to the general taxpayers, makes compulsory health insurance merely a poor-law measure under another name. There is no evidence whatever that industry is responsible for 40 per cent of the illness among wage-workers and their dependents; and if it is not, the compulsory health insurance system confers benefits for which no equivalent return has been made. There are reasons for believing that the share of the community for general sickness is much more than 20 per cent, but improvements in the direction of better health are easily realized under an aroused public consciousness of what requires to be done.

It is alleged that existing voluntary institutions serving social insurance purposes are insufficient and cannot be expected to provide adequately for wage-earners' needs. As a matter of fact, a truly enormous number of such institutions in the United States are rendering a conspicuous and most useful social service, in so far as the necessity for such a service has been realized. Among the trade unions, the International Cigar Makers'

Union has disbursed more than \$4,000,000 in sick benefits since organization, aside from more than \$4,250,000 paid on account of payments at death. An astonishing number of established benefit funds and sick benefit societies have been organized all over the country, by means of which wage-workers and their dependents are providing for the cost of illness and pecuniary support during sickness, in their own way and at their own cost. Group insurance has come into existence, under which untold millions of dollars of voluntary insurance are being provided for through the liberality and far-sightedness of employers for the benefits of employees. The United States Bureau of Labor Statistics has published a list of over four hundred superannuation funds maintained in connection with American industries—and the list is admittedly incomplete.

All of the various forms of voluntary sickness and life insurance are making progress and developing into methods and means by which the social value of insurance may be further improved and made still more universal than is the case at the present time. Of industrial policies alone there are more than thirty-five millions in force at the present time, providing more than four and one-half billions of insurance protection in the event of death or at maturity. In addition, the industrial life insurance companies have developed an enormous ordinary life business, including nearly three million policies, insuring more than \$3,000,000,000, of which approximately two-thirds is on the lives of wage-workers of America and Canada.

If the trade unions have heretofore made only relatively limited progress in the direction of voluntary sickness insurance, it is because they have clearly realized it to be more to the advantage of American wage-earners that the struggle should be for higher wages and shorter hours. They also, however, have made a determined struggle for better labor conditions and the better enforcement of labor laws. By an improvement in the social condition of labor and the health conditions of the community, a large amount of prevailing sickness can be made unnecessary, as is best illustrated by the remarkable reduction of late years in the mortality from tuberculosis, typhoid fever, malarial fever, industrial accidents, and practically all the acute infectious diseases of infancy. Further progress in this direction will be of far greater benefit to American wage-workers than the establishment of compulsory health insurance, which

will leave matters much as they are at present. By the more rational development of labor laws and their more rigid enforcement, further measurable progress can be achieved in the health of wage-workers, who now suffer more or less from occupational diseases, because of indifference and neglect on the part of the constituted authorities. Compensation for occupational and industrial diseases is demanded by the highest considerations of public welfare and is easily provided for in conformity to the principles of the Massachusetts Workmen's Compensation Act.

By concentrating effort upon these measures of social and economic reform, much greater benefits can be realized by American wage-workers and their dependents than by the establishment of a bureaucratic, burdensome and coercive system of compulsory health insurance. It is, therefore, decidedly to the interests of the American people that the propaganda for compulsory health insurance should be intelligently and persistently opposed as un-American because of the vicious class distinction it implies, as uncalled for by the social or economic necessities of our wage-earning population, as needless because of our satisfactory health conditions, and as contrary to public policy because of the resulting discouragement of any and every form of voluntary thrift.

NOT EVEN COMPULSORY BENEVOLENCE WILL DO¹

Social insurance cannot remove or prevent poverty. It does not get at the causes of social injustice. The only agency that does get at the causes of poverty is the organized labor movement. Social insurance in its various phases of sickness insurance, unemployment insurance, death benefits, etc., only provides the means for tiding over an emergency. The labor movement aims at constructive results—higher wages, which mean better living for the workers and those dependent upon them; better homes, better clothing, better food, better opportunities and shorter hours of work, which mean relief from over-fatigue,

¹ By Samuel Gompers, President American Federation of Labor. National Civic Federation. Annual Meeting Addresses. p. 5-10. New York. January 22, 1917.

time for recuperation, workers with better physical development and with sustained producing power. Better physical development is in itself an insurance against illness and a degree of unemployment. The short hour workmen with higher wages become better citizens; better able to take care of themselves.

The real permanent benefits that come into the lives of the workers, those which are felt from day to day and not merely during times of special need, are brought about by the trade union movement. The trade union movement represents the organized economic power of the workers. Through the development, the organization and the exercise of this economic power the workers themselves establish higher standards of living and work. Although this economic power from the superficial standpoint seems indirect, it is in reality the most potent and the most direct social insurance the workers can establish. It is the only agency that really guarantees to them protection against the results of the eventualities of life and gives them a feeling of security.

The efforts of trade organizations are directed at fundamental things. They endeavor to secure to all workers a living wage that will enable them to have sanitary homes, conditions of living that are conducive to good health, adequate clothing, nourishing food and other things that are essential to the maintenance of good health.

In attacking the health problem from the preventive and constructive side they are doing infinitely more than any health insurance law could do which provides only for relief in case of sickness and yet the compulsory law would undermine the trade union activity.

There must necessarily be a weakening of independence of spirit and virility when compulsory insurance is provided for so large a number of citizens of the state. Dangers to wage-earners readily arise under the machinery for the administration of social insurance, one of which is the establishment of compulsory physical examinations. Such examinations have been perverted and made to result in detriment of workers. The necessary discretionary power in compulsory insurance lodged in the administrative board could readily be used in efforts to coerce organizations of wage-earners, for the administrative body must have the power to approve societies and also to withdraw approval at any time.

The trade union movement does not detract from the power or the opportunity of wage-earners. On the other hand, methods for providing social insurance delegate to outside authorities some of the powers and opportunities that rightfully belong to wage-earners. At first only a limited amount of authority and power may be delegated to and exercised by the governmental agent, but the application of even that little power constitutes a limitation upon the rights and freedom of wage-earners and creates a situation which has in it the germs of tyranny and autocratic power.

Governmental power grows by that upon which it feeds. Give an agency any political power and it at once tries to reach out after more. Its effectiveness depends upon increasing power. This has been demonstrated by the experience of the railroad workers in the enactment of the Adamson Law. When Congress exercised the right to establish eight hours for railroad men it also considered a complete program for regulating railroad workers which if enacted would culminate in taking from them the right to strike and the conscription act providing for compulsory service.

Compulsory social insurance cannot be administered without exercising control over wage-earners. This is the meat of the whole matter. Industrial freedom exists only when wage-earners have complete control over their labor power. To delegate control over their labor power to an outside agency takes away from the economic power of those wage-earners and creates another agency for power. Whoever has control of this new agency acquires some degree of control over the workers. There is nothing to guarantee control over that agency to the employed. It may also be controlled by employers. In other words, giving the government control over industrial relations creates a fulcrum which means great power for an unknown user.

Compulsory social insurance is in its essence undemocratic. The first step in establishing social insurance is to divide people into two groups—those eligible for benefits, and those considered capable to care for themselves. The division is based upon wage-earning capacity. This governmental regulation tends to fix the citizens of the country into classes, and even divide the wage-workers into classes, and a long established insurance system would tend to make these classes rigid.

There is in our country more voluntary social insurance than

in any other country of the world. We have institutions whereby voluntary insurance can and will be increased. It is true that in many of these institutions there are evils, but the cure of those evils is to make insurance companies organize for mutual benefit and to provide proper regulation and control, and in addition, if those who really have the welfare of wage-earners at heart will turn their activities and their influence toward securing for wage-earners the opportunity to organize, there will be no problems, no suffering and no need that will necessitate the consideration of benevolent assistance of a compulsory character.

The workers of America adhere to voluntary institutions in preference to compulsory systems which are held to be not only impractical but a menace to their rights, welfare and their liberty. Health insurance legislation affects wage-earners directly. Compulsory institutions will make changes not only in relations of work but in their private lives, particularly a compulsory system affecting health, for good health is not concerned merely with time and conditions under which work is performed. It is affected by home conditions, social relations and all of those things that go to make up the happiness or the desolation of life.

To delegate to the government or to employers the right and the power to make compulsory visitations under the guise of health conditions of the workers is to permit those agencies to have a right to interfere in the most private matters of life. It is, indeed, a very grave issue for workers. They are justified in demanding that every other voluntary method be given the fullest opportunity before compulsory methods are even considered, much less adopted.

The trade unionists who have considered the problem and expressed an opinion have advised against such compulsory institutions. The American Federation of Labor has had the question of social insurance under consideration for several years, and in the report of the Executive Council to the Philadelphia 1914 Convention there was a summary of investigations made up to that date. Because these investigations were not as thorough or conclusive as was deemed necessary before deciding so important a policy, recommendation was made to the Convention that the subject be given additional consideration.

ECONOMIC DISADVANTAGES OF COMPULSORY HEALTH INSURANCE¹

In order that we may have complete understanding, we must begin at the bottom and discover the foundation upon which it is proposed to rear this structure, social insurance. The foundation is the shoulders of tax-paying society. The plans are a theory that sets forth enormous wage loss due to sickness, also the want, misery and suffering therefrom. The plan for compulsory health insurance has been submitted as a proper corrective measure and is accompanied by arguments to prove its soundness, value and economy.

To economize means to save, and any plan for compulsory health insurance must, if it is to be counted a success, either save the money loss or else save the time loss, which is equivalent. Let us admit that the figures of loss are reasonably accurate, being approximately \$18 per wage-earner per year, or a total loss of \$6,000,000,000 through sickness annually; although we admit that the loss should be increased by 25 per cent, because wages have increased that much since the estimate was made. Can that sum or any considerable part of it, be saved, and what will it cost to make the saving? There is the whole economic problem, and so we now spread the plan of the promoters for searchlight inspection, in order to discover its uneconomic aspects or economic disadvantages.

In the saving of dollars the plan offers no economy. It just pretends to make a saving. Let us not confuse indemnity and saving. The plan contemplates replacing a few of the wage-earners' lost dollars, the state contributing part, the employer part, and the wage-earner standing the balance. But that isn't economy or saving. It is accomplished by reaching into your pocket, lifting a few dollars and dropping them into the wage-earner's pocket.

To illustrate the point, let us divide the public into three parts. Over here we have the state, over here the employer, and in between the wage-earners. It is now reported that as each wage-earner entered the building, sickness robbed him of nine days' pay, the loss in money being \$18 each. What can we do about it? The state says, "I'll put \$1.60 in each of their

¹ By William Gale Curtis. Modern City. 1 : 23-5. May, 1917.

pockets, and you, Mr. Employer, must put \$3.20 in each of their pockets." But is that a saving? No, it is merely replacement and the loss stands at \$18 each, and it will continue to so stand until a plan is devised that will prevent the loss. If the state and the employer could step outside and recover any part of the nine days' loss, there would be a saving but not otherwise. So we record economic disadvantage No. 1.

The plan contemplates compulsory insurance, and includes about 80 per cent of all wage-earners, including farm hands, domestic servants, etc. It isn't difficult to frame and pass a law that says you must, but in many cases the law could not be enforced without aid of police power, and that would be cumbersome and expensive. Such laws as we have reciting penalties presuppose property upon which levy can be made, but it isn't likely that in the absence of property, the law could deprive its non-complying citizens of their personal liberty. Can you imagine the horde of constables necessary to even try to enforce such a law—dashing from house to house weekly in pursuit of nickels and dimes, and failing to collect them, arresting the people? Can you see them chasing through the country after farmers and farm hands? Therefore, we say the law could not be enforced. We record economic disadvantage No. 2.

Then again, where it could be made to work, viz., on the payroll through the employer, what a burden of extra labor and expense. According to the plan, industry must make its accounting at least twice a month. Do you realize what that means? Take the United States Steel, for illustration. All deductions to be on percentage basis. The employee contributes about 1.6 per cent, so every pay day, the pay master's department must deduct from each pay envelope 1.6 per cent, and must enclose a slip showing how it was figured. Then to the whole amount deducted the pay master must add an equal amount as the employer's share, and then the whole amount of both must be distributed pro-rata to as many carriers as there are carrying the risks. The workmen live all over town, and naturally prefer to be insured with some nearby carrier. If the rates of all carriers are not exactly the same, and they will not be, then the percentages would vary, and the pay master's work would increase. All this expense is personal to the employer, and means that his cost would far exceed his 40 per cent contribution. We record economic disadvantage No. 3.

In the case of family servants or places with one or two clerks, the time waste incident to making weekly or bi-weekly payments would be enormous. So we record economic disadvantage No. 4.

Labor is migratory. Not only as regards different plants, but regarding cities and states. A 100 per cent labor turnover per year is not unusual. It is not a matter of wages. Every employment department of large industries will tell the same story. Labor is constantly shifting. Under the proposed plan stop and consider the extraordinary amount of transfer accounting from one association to another. Every time a laborer shifts, his employer shifts also. Then what of interstate complications? Several hundred thousand wage-earners of New York live in New Jersey. Which state contributes the 20 per cent? If New York, it can exercise no supervisory capacity over the New Jersey carrier associations or over the New Jersey doctors. If New Jersey, it can exercise no rights of payroll inspection or collection from employers in New York. The same conditions would exist at Philadelphia, Cincinnati, St. Louis, Omaha, Chicago, Portland, Detroit and many other points. We record economic disadvantage No. 5.

The state must contribute 20 per cent of the whole cost, not to a central body, but to each carrier. How is the state to know the amount of its 20 per cent? The estimated whole cost is 4 per cent of the wage, so the wage must be determined and in figuring the wage, the board and lodging in case of servants, farm hands, etc., and wages and tips in case of waiters, barbers, etc., must be included. It will mean some job to do that auditing, but it must be done, otherwise the state couldn't possibly know what its 20 per cent would amount to. Then after learning the amount, think of the work of distributing its 20 per cent in ever-varying amounts to the eighteen hundred or more carrier associations that would doubtless be established in this state. All the cost of this audit and distribution work is to be charged into the general expense budget of the state. So we record economic disadvantage No. 6.

The operating machinery of each carrier association, as outlined, is top heavy. The bill says not less than eight nor more than eighteen directors, so we can reasonably figure on twelve. The bill also says that the advisory council of each carrier association shall consist of not less than twenty nor more than

one hundred, so a reasonable average would be fifty. Officers, managers, auditors, inspectors, examiners, stenographers, clerks, and then medical examiners, specialists, dentists, panel doctors, nurses, dispensary attendants, etc. Whole number associated with each carrier, approximately one hundred. Compensating all would mean heavy cost. Part of them serving without any pay would mean the investment of much valuable time. The employer must perforce join just as many carrier associations as his workmen belong to, because the government of carriers is vested in a board chosen jointly by the employees and the employers. We record economic disadvantage No. 7.

But cumbersome as this carrier association machinery appears, there is still a further handicap. The state under the law must have an elaborate organization. A supreme state commission, with an advisory council of twelve elected by the carrier associations, a number of division headquarters, advisory medical board, arbitration committee, investigation and audit committees, etc., etc. An organization purely political in the choosing, and with all its salaries and expense payable from the general fund of the state, so that the cost would be concealed, therefore we record economic disadvantage No. 8.

Thomas Sewell Adams, Professor of Political Economy at Yale, says: "The most fundamental causes of inefficiency and waste in public service are indifference and ignorance. Ignorance of public work, its difficulties, its effects, its costs." Continuing further he says: "The diffusion of power and responsibility is the next most potential cause of waste in American government. The people elect a legislature, and then split it so that one branch can check the other. Executive officers are then elected to check and be checked by legislative bodies. Above them the courts and constitution operate as further checks; the whole system being one for impotence, not results, and making it almost impossible to locate responsibility for waste and inefficiency." We record economic disadvantage No. 9.

National economy contemplates the continuous employment of the maximum number of wage-earners, for the maximum number of days each year, therefore any plan that in its application will act as a handicap for many, and will inevitably debar some from obtaining employment, cannot represent economy. One wage-earner out of every ten would fail to pass physical examination. Imagine for a moment that you collec-

tively represent the examining staff of every mill, factory, dock, yard, office, store, etc., in the city. Your employers have set up their standards for employment, and their instructions to you will average about the same. Now comes the string of applicants. Defective eyesight or hearing, hernia, varicose veins, anaemia, rheumatism, ankylosis, asthma, diabetes, eczema, and a dozen other disqualifying conditions, including old age, and in the matter of obtaining employment, 50 would be old. Every tenth man you examine is below standard, therefore rejected. Can you see the line of rejected forming and growing? Can you see every other place of employment turning them away? What becomes of them? Some of them find work somewhere at some wage, but suppose that three of every ten discards are refused everywhere, what is the loss? Three hundred working days each year for each permanent outcast. That means one hundred and twenty thousand outcasts in New York rendered ineligible by law, and the loss of their time will be exactly equal in days, to the loss of the four million wage-earners of the state at an average of nine days each. Instead of making a saving of any part of the time already lost, the plan presents certain additional waste, and therefore we record economic disadvantage No. 10.

To confirm this feature, investigate any of the big industries that employ thousands of wage-earners, and that have installed various forms of social betterment departments. You will find that they have already set up physical standards, and that those who cannot qualify are turned away. At present this fact is not noticed because places of employment with social betterment features are few, but it is significant that they all demand physical standards, and with the advent of any general or compulsory plan, must come the discard class.

The argument of the proponents virtually declares that panel physicians are dishonest and cannot be trusted. The plan therefore provides that special medical directors associated with the carriers must declare a man sick before a panel physician can treat him, and the medical director must keep track of all cases and declare them well in order to defeat malingering and collusion between patient and panel physician. We record economic disadvantage No. 11.

No definite plan of compensating panel physicians has even been suggested, but there is voluminous record of strikes,

wrangles and bitter strife between physicians and carriers abroad. The trend of the argument of the advocates is toward piece work, with a limit of clientele, and the cheerful prospect is for the panel doctor to step up to the paymaster's window weekly or bi-weekly and receive his pay envelope with the customary slip showing performance in hours of piece work. A social if not an economic disadvantage.

But economic disadvantages are not all measured in money. The loss of American spirit, individualism, thrift, and self-dependence are all economic disadvantages. This plan is un-American. This country stands as a great monument to democratic rule; of government founded upon equal rights; upon a system of government repudiating the monarchial and paternalistic, and any plan to destroy our independence and set up in its stead a plan of partial dependence is to destroy by wholesale the now thoroughly inculcated ideas of thrift and providence. With the general enactment of compensation laws to cover, as they properly should, all hazards of occupation, and with compulsory health insurance to provide for all other disabilities, what incentive remains to lay by something, as at present, for the rainy day? We record economic disadvantage No. 12.

Isn't it a matter of fact the knowledge that the rainy day will come, and the necessity for providing therefor, that accounts for our enormous savings accounts, as evidenced by the records, and isn't most of the hardship and suffering at present due to the unthrifty habits of a large percentage of our wage-earners? Isn't it an indisputable fact that the average loss of 3 per cent of his annual wage would not impoverish the wage-earner? We record economic disadvantage No. 13. Compulsory thrift would be more reasonable, more feasible and more economical.

It is agreed that 50 to 80 per cent of sickness is preventable. Several members of the medical profession have prepared papers going somewhat exhaustively into this matter, and they are all of one opinion, therefore, we point out that any plan to pay out hundreds of millions in service and indemnity, when the proper administration of various state and municipal departments would save that money, is a plan to be condemned. We record economic disadvantage No. 14.

A national social disadvantage is in the end an economic disadvantage, and we submit that any plan that contemplates dividing society into a self-supporting and contributing class on one side, and a partially dependent class on the other side, is setting up a barrier that must react to the disadvantage of the nation. To tell the four million wage-earners in New York that they are incompetent—that they must become wards of the state—that they must receive bounty from employer and state—is to deal a body blow to their most precious possession—personal dependence and independence. We record economic disadvantage No. 15.

Such a law would undoubtedly trespass upon the constitutional rights of the individual. The Constitution does not declare unrestricted liberty for one, and restricted liberty for another. We record economic disadvantage No. 16.

Such a law would be confiscatory in that it would without process take from one his personal property and bestow it upon another. A radical departure from our well defined laws covering property rights, and opening up wonderful possibilities, because all social inequalities could speedily be adjusted by amending the law and increasing the tax. We record economic disadvantage No. 17.

This country is above the need of any form of compulsory insurance. The conditions in Europe that gave rise to their plans do not exist here. Wage poverty and paternalism were the causes. Their systems have failed. The cost is ever increasing. The amount of sickness has not decreased. The average period of disability has increased. The average number of cases of sickness per one hundred wage-earners has increased. We record economic disadvantage No. 18.

The quality of medical service is condemned by all doctors who have any knowledge of its character. Search the records and you will find only failure. We record economic disadvantage No. 19.

What this country needs is proper prevention. Dr. Otto Geier, of Cincinnati, who has spent years in social betterment work, aptly puts it when he says "by proper methods and developments of preventive systems the average loss of nine days per wage-earner can be reduced to two days, and when that is accomplished all this talk about loss and suffering and misery

will disappear." Let us get that point fixed in mind. The only saving that will ever be made will come through cutting down the average period of loss, and that can come about only by a campaign of prevention.

To pass compulsory sickness insurance laws in advance of the general establishment of measures to preserve public health, prevent disease and to ascertain and correct physical defects in school children is only an attempt to make water run uphill.

Every state and every city has its department of health, housing, factory inspections, smoke abatement, sewers, water, streets and alleys, garbage, food inspection, etc., and the public is being taxed for their maintenance. Bring those departments to their highest efficiency, and make them do their work, and two-thirds of the present wage loss will be saved. That means a saving of \$400,000,000 per year at a nominal additional cost, instead of a continuing loss of \$600,000,000 and an expense of at least half as much more. We record economic disadvantage No. 20.

Such a law would interfere with national progress—destroy existing relations between wage-earner and employer—between wage-earner and physician—between different branches of medical practice—between members of society—between employer and state—would promote political and civic corruption. We record economic disadvantage No. 21.

If sociological theorists will stop trying to devise and promote plans to pay and continue paying more and more for social loss, and turn their attention to a campaign of prevention only, capital, business, industry and labor will stand united with them, and industry and labor will, as they always have done, find a proper solution for their differences.

ARGUMENTS AGAINST HEALTH INSURANCE¹

1. It does not follow that because social insurance has been in existence in Europe for some years past, that it should necessarily be adopted for this country.

2. From the point of view of the European citizen there is nothing inconsistent in a governmental measure such as

¹ From pamphlet, Non-Contributory Old Age Pensions and Health Insurance. Boston Chamber of Commerce. Report of the Special Committee on Social Insurance. p. 11-13. 1917.

social insurance. He has from the earliest times and traditions become used to the theory that the lord should protect the vassal, and that the upper and more influential classes of society should have solicitude for the common class. Our government was constructed on a foundation that stood for individual freedom and equal rights under the law to all; anything tending toward feudalistic, paternalistic or aristocratical control has been frowned upon.

3. There is a tendency to start for the first time a distinction between the successful and the unsuccessful, the worker and the indolent, the aspiring and the slothful; which permits and requires the laboring man to be somewhat dependent upon his employer, the servant upon his master; which tends to diminish the workingman's self-respect and pride, to discourage, at least in some degree, thrift and foresight for his own comfort.

Should be Thoroughly Studied

4. The consequences of adopting such legislation should be thoroughly studied.

5. The payment of cash benefits from public or quasi-public funds is demoralizing and will create many ills, political and social.

6. The proponents cannot justify their bill on the ground merely that some class in the community needs the money, and therefore another class must pay it.

7. Sickness is and always has been one of the incidents of living and presumably is and always has been as common to those employing others as to those employed.

8. The need of this particular form of relief has not been shown.

9. It is more remedial than preventive and so is not in harmony with the best social thought.

10. Legislation of this sort is in the minds of many people socialistic and along the lines which they deplore.

11. It discourages thrift.

12. It is unconstitutional.

13. An employer cannot possibly realize the equivalent of a 50 per cent benefit to equal his 50 per cent contribution in common with the employee. In this there is no comparison with liability insurance. The only justification for an employer contributing equally with the employee is that he may share equally with the employees in the administration of the fund.

14. Insurance does not reach the results of idleness,

drunkenness, vice and other improvident or evil conduct of the individual himself when not employed at some work.

Charged to the Industry

15. It is apparent that the legislature of this and other states, or the various courts by interpretation, intend that occupational disease shall be charged to the industry and be included under the benefits of the various compensation acts.

16. Each legislature since the adoption of the compensation act has in some manner enlarged the benefit to the employee so that he now receives 66 $\frac{2}{3}$ per cent of his wages and the waiting period is reduced to ten days, and the medical attendance may be for such length of time as the Industrial Accident Board may order.

17. The suggestion that it might be feasible for the state to adopt the principle of the proposed legislation, and as an experiment limit the benefits to a smaller degree than are now set in the various bills, would, judging by the past, be increased yearly until the scheme becomes non-contributory on the part of the employees and the benefits paid for sickness increased to the full amount of wages for any time lost by the employee from his work on account of sickness.

18. The employee spends only one-third of his time at his occupation and the remaining two-thirds are spent according to his own choice. The strictest sanitary precautions may be taken by the employer and no precaution may be taken by the employee when away from his work.

19. German experience shows that the number of days of sickness per insured person is increasing.

Feigned Sickness

20. Malingering and feigned sickness are always present.

21. The bill already introduced would greatly increase the tax rate in Massachusetts, perhaps almost double this tax at once. The people should know more than they now can know regarding the ways in which the new money will be spent, and the people should be persuaded that it will be wisely spent.

22. The provisions for medical supervision are very weak and there is no settled opinion among the medical profession on the best methods of administration of the benefits or means of sickness prevention.

23. It lowers the standard of the medical profession.

24. The number of insurance carriers and administrative boards with which any one employer will have to deal brings a heavy burden of accounting upon industry.

25. There would be great difficulty in applying the provisions to sparsely settled communities where wages and incomes are usually low.

26. No European country pays 66 2/3 per cent to beneficiaries as provided in the bill proposed in Massachusetts.

27. The premiums are based on uniform costs and not upon occupational hazards.

By Strong Central Government

28. Such a scheme of administration is better administered by a strong, central government, the members of which have high notions of civic responsibility, and where the length of service is counted in long terms of years. The danger of creating opportunities for reward of party fealty is a danger to be well weighed by the citizens and taxpayers of Massachusetts.

29. The amount of money necessary for insurance if paid by the commonwealth under an able and efficient board toward the prevention of sickness and the treatment and cure of disease, which is perfectly legal under the powers of the state, would be a much better expedient than the means suggested by the various health insurance bills.

At the present day the average individual has not been able to avail himself of the best of medical advice and treatment, and such a plan of prevention would be educational to the masses; would prevent the beginning and spread of sickness and disease; would result in a better type of individual citizen; would preserve the self-respect of the individual; would treat all classes of society alike, would be entirely consistent with Americanism and comprehends that all contribute to the health and welfare of all.

ATTITUDE OF MEDICAL SOCIETY OF THE
STATE OF NEW YORK TOWARD COM-
PULSORY HEALTH INSURANCE¹

* The committee's statement, together with its findings and recommendation, as adopted is as follows:

The essential components of all compulsory health insurance

¹ Monthly Labor Review. 10 : 255-8. January, 1920.

schemes are two: 1, the provision of a cash indemnity during a relatively brief period of incapacity to labor due to illness; 2, the provision to the insured and their dependents during a determinate time of so-called medical benefits which comprise medical, dental, and nursing attendance, hospital and sanatorium accommodations, maternity attendance, drugs, and all necessary medical and surgical supplies.

The proponents of this legislation rest their demand for the institution of this scheme in America upon two main allegations: 1, that a very large amount of poverty is due to illness causing consequent unemployment and loss of income; 2, that a vast amount of the population receives inadequate and insufficient medical attendance; that is, that medical attendance is grossly deficient both as to quantity and quality.

With the general features of the measures proposed for the legislative enactment of the compulsory health insurance scheme in this state your committee will deal only in the briefest manner; the matter is familiar to you. It is proposed to establish an administrative machinery radiating downward from a division of the state industrial commission composed of a certain number of commissioners appointed by the governor who, in turn, appoint a chief of the bureau of health insurance. Subordinate to the commission and acting under regulations made by the commission function the boards of directors of the local funds, composed of three members elected by the employer members of the local fund, three elected by the employees and one additional elected by these six. All the affairs of the funds are administered locally by these boards of directors. Each local fund employs a medical officer who is permitted to practice and who is practically the medical supervisor of the administration of the benefits of the act. The medical profession is not represented upon any executive body under the proposed law, but is permitted to function solely through advisory committees, local and state. Its sole statutory representative has an administrative, not an executive function.

After consideration of the evidence put forward by the proponents of this legislation in support of their statement that a large proportion of the poor have been impoverished through unemployment caused by illness, your committee finds that none of this evidence is unimpugnable and that it rests upon largely a priori reasoning. The preponderance of evidence is against

the fact that any considerable amount of impoverishment is caused by illness; moreover in those cases where impoverishment is caused by illness, it is due to the long-enduring disability preceding death occurring in the chronic diseases, especially tuberculosis, chronic heart disease, cancer, chronic joint infections, renal and vascular disease which cause a disability long exceeding the period of twenty-six weeks during which the insured is entitled to benefits under the scheme. The statistics of the labor bureau of New York State show that in the main disability from all causes, including accident, injury, and illness, is the source of, on the average, only 5.7 per cent of unemployment, about the same amount as that caused by weather conditions (5.6 per cent) or a little less than half that caused by labor disputes (10.6 per cent), or one-thirteenth that due to lack of work (74.6 per cent). A survey entitled "Poverty in Baltimore and Its Causes; Study of Social Statistics in the City of Baltimore," by the Alliance of Charitable and Social Agencies, McCoy Hall, Baltimore, Md., November 15, 1918, gives strong evidence of the small part illness plays in the cause of poverty; moreover, it evidences strikingly the fact heretofore stated as to the relationship of prolonged disability not covered in any scheme for health insurance to the relatively few cases of impoverishment due to sickness. Your committee would find, therefore, that short illnesses causing ephemeral disability bear no relation to poverty; that where impoverishment is caused by illness it is in all instances due to long-continued disability; and that illness is but a very minor cause of unemployment as compared even to the conditions of the weather or labor disputes.

Your committee is unable to find any available evidence that will bear inspection proving that, in the main, medical attendance in this state is grossly deficient in quantity or grossly defective in quality. If these facts were true it is unable to satisfy itself that the people of this state would receive a larger and closer degree of medical attention where one physician may care for either two thousand or more patients as permitted under this scheme than they now receive where the proportion of physicians to population is about as one is to seven hundred and eighty. Moreover, your committee is satisfied that the quality of medical attention would no more be benefited in the United States than it has in Germany, Austria, and Great Britain, by the conversion of medical practice from its present

plan into an enormous scheme wherein the practitioner would be employed from year to year under contract, and in the final analysis subject to lay dictation as to means and methods of practice.

Your committee feels very strongly that the inquisitorial powers which would be conferred upon the state industrial commission and its agents, and upon the local boards of directors must be considered in its effect upon the public health, and especially as to the rôle it might assume in submerging and nullifying the activities of the present state department of health which has played so large a part in the reduction of morbidity and mortality by means of preventive, not palliative, medicine.

There is no uncertainty about the evidence that the relative morbidity rate, mortality rate, infant-mortality rate, and maternal-mortality rate has been much more materially reduced in the United States during the past twenty years than it has been in Germany and Austria, where compulsory health insurance, not alone, but the whole scheme, including invalidity and unemployment insurance and old-age pensions, have been in force. It can, therefore, be seen that compulsory health insurance, as such, plays a very small part in the reduction of length and severity of illness, and that on the whole it has been of extremely little value medically in those countries, while it has been the cause of a profound deterioration in medical service and medical morale. Even in England, where it has been in operation for a comparatively short time, it has proven so defective and ineffective for the purpose for which it was instituted that it is now proposed to inaugurate the plan of state medicine to supplant it.

Your committee therefore finds:

1. There is no necessity for the institution of a scheme covering the major portion of the population of the state, providing for the institution of contract medical practice on a colossal scale in order to furnish medical attendance and other services.
2. In those countries where this scheme has been in operation for many years it has caused a deterioration in medical morale and medical service, and that its effect in this state would be the same; that is, a lessening in the quality of medical service.
3. In comparison with those countries where this scheme has been in operation, the United States shows a more marked reduction in mortality rate, both general and as affecting maternal

and infantile mortality rate. Apparently the morbidity rate under the scheme has doubled instead of being diminished in Germany and Austria since the institution of the social-insurance plan.

4. There is danger of the scheme gradually undermining the functions so extremely valuable to the community at present subserved by the state department of health.

5. Owing to the paucity of accurate and unimpeachable data collected by means of an unbiased investigation, your committee recommends that the legislature of 1920 be requested to appropriate a sufficient sum of money for the use of the health department and such other departments in association with it as it requires for the purpose of making a survey of the State of New York to determine the amount and character of illness in its economical relation to the Commonwealth.

6. If additional legislation is to be enacted, it should provide for a greater development of existing agencies for preventive medicine, together with the extension on a large scale of the present county and municipal functions for both preventive and remedial medicine, and it should make further provision for the inauguration of more widely extended utilization of the present institutional clinical facilities for the diagnosis and treatment of disease in order to facilitate the access of the entire population of the state to modern methods in the practice of medicine.

Your committee therefore, recommends that the house of delegates, and, through them, the Medical Society of the State of New York, unqualifiedly oppose the enactment by the Legislature of the State of New York of any law instituting a system of compulsory insurance against sickness because of its menace to the public health of the state.

MYSTERY AND THE MENACE OF COMPULSORY HEALTH INSURANCE IN THE UNITED STATES¹

There appears to be something in common between the influenza epidemic and compulsory health insurance. The origin of the propaganda for compulsory health insurance is shrouded

¹ From article by C. D. Babcock, Secretary of the Insurance Economics Society of America. *Economic World*, n.s. 17 : 489-90. April 5, 1919.

in mystery, it is persistent, and so far no one has been able to determine the source of the ample funds required and used to keep it going.

Dr. E. H. Ochsner, prominent Chicago physician and surgeon, says the movement was started in this country by an eastern professor of political economy, who was the prime mover in the organization of the American Association for Labor Legislation, which is composed of a group of estimable theorists and which has fathered compulsory health insurance bills all over the United States. Dr. Frederick L. Hoffman of New York, a leading economist, declares the movement was "Made in Germany." In an address last May before the Michigan Manufacturers' Association, at Detroit, Dr. Hoffman declared that "however vague or remote it may seem to most of you, compulsory health insurance is perhaps the most serious menace to the manufacturing interests of America at the present time. If anything over here ever was really 'Made in Germany,' fathered and fostered and sustained by German interests, it is the propaganda for compulsory health insurance. It took me a long time before I became aware that this was not an educational propaganda for the benefit of the peoples to whom it was addressed, but was for the sole purpose of increasing the cost of production in foreign countries as an offset against the ever-increasing burdens placed upon German industry by social insurance."

Between 1885 and 1910 German industry paid over a billion dollars in premiums on account of social insurance in its various forms and a distinguished German expert is authority for the statement that the burden upon the cost of production of manufactured articles entering into international competition had become so great before the war as to hamper the sale of such articles in foreign markets.

Contrary to inspired reports appearing in influential and conservative eastern papers, "big business" is not in favor of compulsory health insurance; nor are the insurance interests. Whenever American business men have taken the trouble to investigate the proposed plan they have unqualifiedly opposed it.

The Associated Manufacturers and Merchants of New York State, representing sixteen hundred employers with two million workmen, is not only actively opposing the compulsory health insurance bill now pending in that state, but has offered as an offset a health conservation measure, which was introduced in

the Senate by Mr. Graves. The Ohio Manufacturers' Association is opposed to compulsory health insurance. The Commercial Federation of California worked hard to defeat the constitutional amendment submitted to popular vote in that state in 1918. The National Industrial Conference Board, representing seventeen of the largest national industrial associations in this country, favors health conservation by prevention of disease and opposes compulsory health insurance. The New York Chamber of Commerce and the National Civic Federation take practically the same position; and the list might be extended indefinitely.

The cost of compulsory health insurance is one of the big stumbling blocks in the path of its proponents. It is estimated that the cost of the system if enacted throughout the United States would be from \$700,000,000 to \$1,000,000,000 per year, or not less than \$7 per capita for every man, woman and child in the country. My organization has estimated the cost in New York, under the bill now pending in that state, at not less than \$136,000,000 per year, and in Ohio at \$80,000,000 per year. The California Research Society estimated the cost of the proposed system in that state at \$61,000,000 per year.

From the foregoing it might be inferred that compulsory health insurance is a labor measure, but such is not the case. Samuel Gompers and other leaders of the American labor movement are unalterably opposed to the proposed compulsory system. At the annual convention of the American Federation of Labor, held last June in St. Paul, there was adopted Resolution No. 101, intimating that the propaganda was being carried on "by those interests that always have opposed the organized labor movement," and providing for the creation of a special committee to investigate the whole subject, including the sources of the income of those persons and organizations promoting the compulsory insurance system. This committee is now at work and its report may be expected shortly. The Boston Central Labor Union is strongly opposed to the compulsory plan. Although the influence of some of the leaders was strong enough to cause the California State Federation of Labor to endorse the amendment in that state, the election returns indicate that the rank and file of labor did not vote with the leaders, every labor center in the state having rejected the compulsory health insurance amendment by a large majority.

The more the plan is studied by the medical profession the

more pronounced the opposition becomes and it is apparent that the profession never will consent to the enactment of any such bills as have been offered so far. The record shows that in Germany the medical men have become practically day laborers, working long hours for small fees and being constantly involved in wrangles among themselves and with officials in charge of the administration of the system. Another evil reported is the demoralization of the profession by pressure brought to bear on physicians to certify that patients are entitled to benefits where equity and integrity would require the physician to cut the patient off the pension roll. It is alleged that this had resulted in the ruin of many conscientious practitioners and the enrichment of those who had no scruples against bleeding the insurance funds for their own benefit and that of their patients. In concluding a remarkable analysis of the German system Dr. Ferdinand Friedensburg, for twenty years president of the senate in the Imperial German Insurance Office, refers to the system as "the cancer that is destroying the vitals of our state."

Dr. William A. Brend, eminent English physician and economist, in his recent book entitled "Health and the State," says that "The National Insurance Act is the most ambitious piece of public health legislation ever carried through in this country. No previous measure has directly affected so large a number of persons, involved so great a cost, made such demands upon administration, or been introduced with such lavish promises of benefits to follow; and no previous measure has ever failed so signally in its primary object." Not only has the English act failed to prevent sickness, eliminate poverty and misery, and confer the other benefits claimed for it, but it has brought about in that country, as it has in Germany, the demoralization of the medical profession, as well as fraud and malingering among wage-earners, and it has cost every year millions more than was originally estimated.

The fraternal beneficiary societies, with a membership in the United States of nine millions, see in the proposals for compulsory health insurance the complete ruin of fraternalism and they are vigorously opposing the propaganda. The Christian Scientists and others who lay stress on their right to select their own methods of healing, are opposed, because they believe the adoption of the compulsory system would interfere with their personal liberty in the direction indicated. The drug business has

been demoralized in England; and the pharmaceutical profession in this country is thoroughly aroused to the danger.

With all these forces opposed to compulsory health insurance it would appear that the business man has little to fear, but those who take this position do not know the intelligence, skill and persistence with which the affirmative campaign is being carried on, nor do they realize what can be accomplished in moulding public sentiment by a liberal use of money. To meet the menace of this "Made in Germany" propaganda there must be organized agitation and education, and a campaign fund large enough to cope with the machine constructed by the proponents of compulsion. It might be advisable for all of the elements opposed to compulsory health insurance to get behind constructive legislation designed to conserve health, reduce wage loss due to sickness and improve living conditions in whatever direction this may appear feasible.

The Wisconsin commission has just reported four to one against the adoption of compulsory health insurance in that state. The fifth member, a Milwaukee socialist, will submit a minority report. The majority report ventures the opinion that \$1,000,000 spent on health conservation would produce better results than \$20,000,000 spent in erecting a great political machine to pay cash benefits to those who might not have been sick at all under proper health conditions,—a condition which the Wisconsin commission believes the state is in position to bring about at a comparatively small expense.

MATERNITY BENEFITS

MATERNITY BENEFIT SYSTEMS IN CERTAIN FOREIGN COUNTRIES¹

Three ways of aiding the mother at childbirth are now in use in the leading foreign countries. The first method is that of providing the mother, both before and after confinement, with skilled nurses, medical attendance, and helpful advice, for which she pays if she is able, but providing no cash benefits. This method has been developed most thoroughly in New Zealand by a voluntary organization and excellent results have been secured. The second method is that of furnishing outright a sum of money on the birth of a child, the state supplying the funds. The third method is that of insurance, of collecting money in advance from the insured persons, their employers, and in many cases from the state, so that money, aid, and medical and institutional care are available when the birth occurs. As most of the leading countries of the world now have in operation systems of sickness insurance for the greater part of the population which would need maternity aid, the maternity systems have been combined with the sickness insurance systems to avoid creating a second piece of administrative machinery. In one country, Italy, where there was no system of sickness insurance, an independent maternity insurance organization was developed.

The list of countries having some form of cash benefit for mothers during maternity is impressive; all of the larger and most of the smaller countries of Europe, as well as the Commonwealth of Australia, have made provision for their women wage-earners. These countries are Australia, Austria, Bosnia, Denmark, France, Germany, Great Britain, Herzegovina, Hungary, Italy, Luxemburg, Netherlands, New Zealand, Norway, Roumania, Russia, Serbia, Sweden, and Switzerland.

The action of these countries is not a matter of recent date; the national insurance system of Germany began with the year

¹ By Henry J. Harris, Ph.D., Chief of the Document Division of the Library of Congress, formerly Statistical Expert of the Bureau of Labor, United States. Children's Bureau Publication. No. 57. p. 11-16. 1915.

1884, though there was provision by the local governments before that date; Austria in 1888 and Hungary in 1891 adopted plans similar to the German. Other countries gradually introduced relief in this field, until at the outbreak of the European war practically all the leading countries had fallen into line. It is worthy of note that the interest in maternity relief was not due to the frightful loss of life caused by the war, though the war has directed the attention of the world to the subject of infant mortality and the care of mothers during childbirth to a greater extent than ever before. In 1910 Italy instituted a national maternity insurance fund; the health insurance laws of Great Britain and Switzerland came in 1911; Russia and Sweden passed similar laws in 1912; while Australia in 1912 and France in 1913 provided special systems of allowances to mothers during childbirth. The whole movement may be said to be due to realization of the fact that the health of the wage-earning population is one of the greatest responsibilities of the state, and that the care of the woman wage-earner, especially the mother working away from her home, is peculiarly important under modern conditions.

There is much variety in the industries and occupations protected by these laws. At the one extreme is Australia, which has ignored industries and occupations altogether by declaring that every woman shall receive the substantial sum of \$25 on the occasion of childbirth. The health insurance systems of Germany and Great Britain cover the greater part of all industries and occupations. Italy, on the other hand, restricts membership in the national maternity insurance fund to wage-earners in manufacturing industries, and women employed in rice fields. The restrictions are usually due to the difficulty of providing administrative machinery to meet the special conditions—for instance, in the home-working industries, in the case of casual workers who change employers frequently, or in the case of agricultural workers who would be scattered thinly over wide areas. Because some countries have special legislation affecting domestic service, such as requiring the employer to provide medical care for servants living in his household, this occupation is frequently omitted from health and maternity benefits of the insurance systems. In recent legislation there is a clearly marked tendency to include all occupations and all industries in systems of health insurance, and this is particularly true of maternity insurance and benefit systems.

The scope of the maternity benefits is also varied by the limits on the persons included. There is a general agreement on the inclusion of wage-earners; salaried employees—that is, those who are engaged in clerical work, in the minor administrative positions, etc.—are sometimes omitted because they usually have a more permanent employment status than those doing the work involving physical labor. As a rule there is a restriction on the class of persons insured by excluding those earning more than a specified sum; in Great Britain the limit is placed at £160 (about \$800) annual earnings; in Germany it is 2,500 m. (about \$600).

Great diversity of practice exists in the treatment accorded the wife of the wage-earner who is not herself insured. Under the British law she is entitled to maternity benefit; under the German law it is optional with the local organization which administers the insurance to provide the maternity benefit, although the special laws in force during the war provide practically the same benefit as for the woman included because she is a wage-earner. The tendency in the recent legislation is to make liberal provision for the wife of the insured wage-earner.

One of the most humane features of these maternity systems is the treatment of the unmarried mother. In New Zealand only is she excluded from the aid; in Great Britain she is not allowed to receive the supplementary benefit which is granted to married women.

The benefits provided by the various countries consist of, first, a sum of money either in one payment or in weekly payments; second, medical and surgical service and medicine; third, a small weekly sum paid while the mother herself nurses the child. In one country, France, a system of instructing and advising the mother by visiting nurses or volunteer visitors is in force.

As in most countries it is the wage-earning woman who is protected by the insurance system, the maternity benefit is practically a partial substitute for wages. The usual amount varies from 50 to 75 per cent of the wages, with a tendency in the recent laws to increase the amount to either full wages or close to that amount.

The time during which the sick wage is paid ranges from 2 to 12 weeks. In most of the countries this period is divided, 2 to 4 weeks coming before childbirth and the rest of the period after that date.

The British and Australian plans simply grant a specified sum to the mother, to be paid on proof of the birth of the child. This method simplifies the administration, but the reports of the operation of the laws seem to indicate that it produces less satisfactory results. The weekly sick-wage payment plan makes it possible to require the mother to refrain from factory or other work under penalty of withholding the benefit. In France it is used also to require the mother to observe fundamental hygiene rules.

In the majority of the countries the mother is provided with free medical attendance and medicine, though in some of the larger countries, such as Great Britain, no such aid is furnished.

One of the more recent provisions is that for nursing mothers. This is granted by Germany, Switzerland, Roumania, France, and Austria and consists of an amount varying from half the regular benefit in Germany to a sum of 50 centimes daily in France. While these amounts may seem insignificant under American conditions, they are of great importance in aiding the European mother to devote herself to the child's welfare during the period when breast feeding is of the utmost importance. The benefit is paid for a period ranging from 4 to 12 weeks.

In all but three countries the maternity aid is joined with the health insurance system. The reasons are obvious; the group of the population to be aided is, for all practical purposes, the same as that included in the health insurance; next, the benefits needed are the sick wage and the medical service, the same as in the health insurance system. The three countries which do not follow this plan have no systems of health insurance; they are Italy, with its separate system of compulsory maternity insurance for women wage-earners; France, with its maternity allowance for those dependent on their earnings; and Australia, with its maternity allowance for its citizens.

All sorts of combinations have been made in distributing the expense. At one extreme are Roumania and Denmark, where the wage-earner pays the entire cost, though there is a slight amount of aid from the national government; at the other extreme are Australia and France, where the government bears the entire cost. The majority of the systems distribute the cost among the insured persons, the employer, and the state, with the wage-earner bearing the largest share.

As it is difficult in a short space to give any idea of the opera-

tion of these laws, it will not be attempted; but it is important to call attention to the fact that practically the entire wage-earning population of Germany, Great Britain, Austria, France, and Russia—the largest countries of Europe—are in receipt of some sort of aid during the period of childbirth, while in the Commonwealth of Australia every case of childbirth receives a substantial money grant. These countries disburse large sums on this account; thus, in 1913-14, the federal government of Australia paid out \$3,284,839 in maternity allowances and this sum represents 3 per cent of the consolidated revenue of the government. In France the maternity allowance calls for over \$1,000,000 annually from the national government and another \$1,000,000 from the local governments. These two instances are mentioned as showing the extent to which governments are willing to assume financial burdens to relieve the distress of the wage-earning population, and it should be mentioned that this expenditure was begun before the outbreak of the European war. Under the abnormal conditions caused by the war the government of Germany has appropriated the sum of 5,000,000 m. (about \$1,190,000) monthly to defray the cost of the maternity benefits of the national compulsory insurance system; at the conclusion of the war, of course, it is expected that the method previously in use will be resumed.

One advantage of the provision of maternity benefits is that it furnishes information not otherwise available as to conditions among the wage-earning women. Thus, in Great Britain, Mr. Lloyd George stated in the House of Commons: "Above all, the working of the act revealed an appalling amount of sickness among married women, especially under certain conditions (i.e., childbearing), a fact which was quite unknown before the act."

To sum up the situation: In spite of all the imperfections of these plans for caring for the mother and child, one country after another has gradually adopted them until all the leading industrial countries of the world have something of the kind. There has been a tendency to give up voluntary systems for compulsory systems. At the last international congress on social insurance at Rome in 1908, the conspicuous feature of the discussions was the favorable attitude toward compulsion taken by the delegates from countries like France and Great Britain, where compulsory measures had previously been opposed.

MATERNITY BENEFITS¹

The function of maternity insurance may be analyzed under the following four headings, corresponding to the four causes of economic loss, connected with childbirth: (a) extraordinary expenditures for medical aid and supplies connected with childbirth; (b) the period of enforced idleness and the consequent loss of wages; (c) the necessary period of rest before childbirth, to preserve the health of the mother; and (d) the equally necessary period of rest after childbirth, for the purpose of both strengthening the mother and improving the chances of the child.

It appears, then, that maternity benefits have several distinct features, because the prophylactic factor is of greater importance and because the interests of the future generation are also directly concerned. Again there are three distinct aspects of the problem: (1) that of the married woman worker who combines the duty of a wage-earner with those of a housewife, or at least a wife, and is in most cases only partially dependent upon her earnings; (2) that of the unmarried wage-earning mother; (3) that of the wage-earner's wife who is "not gainfully employed" in the sense of not bringing any money revenue into the family treasury.

The distinction between the first and second aspects is largely a moral one, that between the first two and the third primarily an economic one. The only fair way of handling this problem is by entirely omitting in the act any reference to distinctions between legitimate and illegitimate births.

The maternity benefits of the British law have occasionally been referred to as the most liberal in Europe, but that is hardly correct. The basic maternity benefit is a flat amount of 30 shillings but this is payable both to the insured women and to the wives of insured men. However, in Hungary, Servia, Roumania, and Norway as well, maternity benefits to wives of insured persons are compulsory. In addition to the 30 shillings, insured women are entitled also to the regular sickness benefit during confinement. The 30-shilling provision is entirely free from any moral strings; all wives (or widows in case of posthumous children) of insured persons, and all insured women are entitled to it. Curiously enough, however, the additional sickness benefit

¹ From article, *Standards of Sickness Insurance*, by I. M. Rubinow. *Journal of Political Economy*. 23 : 356-61. April, 1915.

just referred to is payable only if the "insured woman" is married. Some discrimination against the unmarried mother was after all dragged in to satisfy Anglo-Saxon moral standards.

Neither Germany nor Great Britain thus furnishes, at least in their laws (German practice being on the whole very much better than the minimum requirements of the law), the best that Europe can show in the development of this movement. Neither in Great Britain nor in Germany is proper medical, or rather obstetrical, aid required. Indeed, the British act specifically states that "medical benefit shall not include any right to medical treatment or attendance in respect of a confinement."

As a matter of fact, that is probably the main purpose to which the money benefit is applied. But is not this purpose sufficiently important to be achieved directly? Under the present system two results are often observed in England: the physician's fees have increased, and instead of a guinea, all the 30 shillings is charged frequently; or the woman in her ignorance may be tempted to save on medical aid, or on foods necessary to her, for the purpose of utilizing the ready cash for other purposes. Neither of the two results is socially desirable. Proper attendance at childbirth is a matter of primary importance to preserve the life and health of both mother and child. So long as the very existence of a sickness insurance system presupposes some efficient and economic organization of medical aid, why, in this branch of the medical service, shall all the faults of private bargaining be left undisturbed? A maternity benefit should not accrue mainly to the benefit of the medical profession. Nothing can be so readily estimated as the approximate number of births, and nothing can, therefore, be so easily provided for in advance. In Austria, in Hungary, in Russia, in fact in almost all the compulsory systems enumerated above, such medical aid is required. It should not be forgotten that annually in the United States some ten thousand women lose their lives from childbirth, and that the number of those whose health is impaired because of unskilled aid is very much larger.

To underscore the importance of these measures for purposes of health conservation, some figures of our mortality statistics may again be quoted. Some sixty thousand children in the United States die annually from diseases of early infancy, half from premature birth, and half from "congenital debility" which in many cases could be overcome by proper care. Some

eighteen thousand per annum in addition die from inanition, debility, and marasmus, practically all preventable conditions. And while it would be idle to claim that in all or in the majority of the cases the lack of mother's care is the cause, yet recent investigations by the United States Children's Bureau leave no doubt as to the importance of its lack as a contributing cause. Of course the data prove that undiscriminating distribution of benefits alone will not solve the question of infant mortality, as the Webbs have so significantly pointed out. For this reason assistance in kind, by medical aid, by visiting nursing, etc., is of even greater importance. But it is statistically established that three months of breast feeding have a decided preventive effect upon the extent of child mortality.

The practical conclusion, therefore, is: that maternity insurance should be made an essential part of sickness insurance, and that it should include: (a) sufficient medical aid, (b) at least a two weeks' period of rest before childbirth, (c) from four to six weeks' benefit after childbirth for the sake of the mother, (d) an equal period for the sake of the child, (e) optional extension of these benefits by sickness-insurance funds which possess the necessary means.

MATERNAL BENEFITS¹

Avoiding the fine points of the different systems under discussions, it will suffice to point out one detail common to all of them. That is, the cash benefit. In some countries more emphasis is laid upon this than in others. In Australia the cash benefit is all there is to the system; in certain other places, notably England, and Saskatchewan in Canada, medical services may also be furnished.

The point we next come to—and the most important of all—is this: have these systems produced the desired results? The whole proposition is one of health; we should have a right to demand results in the shape of a diminution in maternal mortality and in infant mortality, especially during the first two weeks.

¹ From article by Merrill E. Champion, M.D., C.P.H., Director, Division of Hygiene, Massachusetts Department of Public Health. *The Public Health Nurse.* 12 : 287-93. April, 1920.

It must in all honesty be said that results have not borne out expectations so far. This is notably true in Australia. It would seem, nevertheless, that the cause is not far to seek. The inference is simply that people do not make the use of the cash benefit that was intended and which is calculated to produce results. Apparently maternity benefits, apart from cash grants, have not yet been fully tried out.

Various suggestions have been offered for an act which would prove workable for the United States. The bill introduced into Congress in 1918, "to encourage instruction in the hygiene of maternity and infancy," was really in a way, a sort of maternity benefit scheme whose provisions would be carried out jointly by Federal and state authorities. An appropriation by the Federal Government would be contingent upon an equal appropriation on the part of the state legislature.

This method of financing is in some ways a desirable one, though it has obvious disadvantages. As originally drawn up, however, this proposed legislation had one serious defect. It made possible the creation within the state, of a special maternity commission to handle the disbursements provided under the act. This was virtually asking for the establishment of a second State Health Department. Deplorable results might well be expected under such a system. There is altogether too great a centrifugal tendency as it is. Undesirable as this is among private agencies, it is intolerable in state agencies.

From a legislative point of view, there is an inherent weakness in any proposal for maternity benefits. This results from the difficulty experienced in making any accurate estimate as to what a system of maternity benefits would cost. We know, for example, that the Australian plan costs about \$3,000,000 a year. This system is, however, a strictly cash benefit scheme. One cannot make an accurate estimate from charity statistics, for this is a health, not a charitable proposition, and is intended to appeal to a wider class than those who are merely objects of charity. As a matter of fact, the key to the situation is the family physician. He it is who does most of the free obstetrics, aided often by the district nurse. The practising physician, on the other hand, rarely keeps accurate records, and so cannot, if he would, help us with statistics to the extent we might wish. It is the writer's belief that statistics as to the number likely to avail themselves of maternity benefits are bound to be

fallacious. Despite the business man's desire for accurate figures, it would seem that the urgency of the need to reduce maternal and infant mortality would have to justify an appeal to a trial to settle the feasibility of the scheme.

OLD AGE AND INVALIDITY INSURANCE GENERAL DISCUSSION

PROBLEM OF OLD AGE PENSIONS—WHAT IS IT¹

"In the care of the aged we express our altruism in its highest form." The question of state pensions for the aged, like all social problems, is of modern origin. As a form of social insurance it is not necessarily preventive of poverty but rather remedial. Nevertheless, in its most liberal form it seeks to accomplish a more equitable distribution of wealth. A state old age pension ultimately involves a redistribution of wealth, either from the productive years of the individual to his non-productive years, or from the funds of the entire community to the aged. The question of providing for the aged hardly existed before the era of the factory system. The modern problem of old age is a result of the tremendous industrialization of production since the industrial revolution. In the primitive patriarchal state old age was revered, and the aged person was looked up to for advice. Where the family was a unit, the supremacy of the old was permanent and continued beyond their productive powers. The worker in medieval times ordinarily would go on working as long as he could produce something. The feudal lord was obliged to take care of his workers in case of sickness, accident and old age. Under those conditions there was no necessity for individual provisions against any emergency. In the early stage of industrial development, the economic relations between men were more or less of a permanent character. The labor contract was usually life-long. The usefulness of an old man or woman also rarely ceased in an agricultural society before actual senility had taken place.

All this is changed under our modern wage system. The rapid development of industry has deprived old age of the esteem bestowed upon it under the more primitive patriarchal

¹ From Pennsylvania. Commission on Old Age Pensions. Report. p. 211-14. March, 1919.

conditions. Modern industry at the end of a life of productive toil relegates its aged and decrepit workers to the scrap heap as useless and of no economic value. "It is notorious that the insatiable factory wears out its workers with great rapidity. As it scraps machinery so it scraps human beings. The young, the vigorous, the adaptable, the supple of limb, the alert of mind, are in demand. In business and in the professions maturity of judgement and ripened experience offset, to some extent, the disadvantage of old age; but in the factory and on the railway, with spade and pick, at the spindle, at the steel converters there are no offsets. Middle age is old age, and the worn-out worker, if he has no children and if he has no savings, becomes an item in the aggregate of the unemployed. The veteran of industry who is crowded out by changes in processes and the use of new machinery is obviously an instance of maladjustment." It was seen from our discussions that many industrial concerns—especially railroads—will not employ men after they have reached the age of 40, and a few bar men from employment even at the age of 35. It was also found that but few aged workers were engaged in the leading Pennsylvania industries. The labor contract in the factory system is made only for a temporary period, and the employer recognizes no obligation to support the workers during their declining years of inactivity. The aged worker is thrown upon his own resources. This condition of impotence is augmented still further by the break-up of the family in modern society which often thrusts the aged worker into a strange country or community without friends or relatives. "After the age of sixty has been reached, the transition from non-dependence to dependence is an easy stage—property gone, friends passed away or removed, relatives become few, ambition collapsed, only a few short years left to live, with death a final and welcome end to it all—such conclusions inevitably sweep the wage-earner from the class of hopeful independent citizens into that of the helpless poor." The modern problem of old age is thus obviously the problem of the inability to find employment combined with waning earning power. The old man now finds it difficult to secure work even at low wages.

It is evident that much of old age poverty is a result of conditions or misfortunes over which the individual has no control. Many of the aged poor must not be looked upon as paupers. They are the "picked survivors of our civilization,"

and only created paupers by the industrial conditions. It sounds contradictory, but the effect of the blessings of civilization and the prolongation of life is only to prolong the period of inactivity and, because of the growing complications of industry, the working period is also shortened. "There are approximately twelve hundred and fifty thousand former wage-earners who have reached the age of sixty-five years in want and are now supported by charity, public or private. In round numbers, it is costing this country \$220,000,000 a year for the support of this great host of worn-out toilers." Students of social and economic conditions and of standards of living are generally agreed that with modern cost of living, the great masses of workers cannot lay aside from current wages sufficient to provide for possible emergencies. The excessive expenditures required on food and rent as disclosed in the house-to-house studies bear out this contention. Saving for old age is especially difficult as it is so remote and uncertain of attainment. Most people have a working belief in the power of kind fate to bring release in one form or another, before the tools have to be dropped. Professor Seager aptly states: "The conditions of modern industry have failed to supply motives for saving sufficiently strong to take the place of those that are gone. It is true that saving is still necessary to provide for the rainy day, for loss of earning power due to illness or accident or old age, but against these needs is the insistent demand of the present for better food, for better living conditions, for educational opportunities for children. This demand is not fixed and stationary. It is always expanding. . . One consequence of our living together in cities and daily observing the habits of those better off than we are is that we are under constant pressure to advance our standards. This pressure effects the wage-earner quite as much as it does the college professor. Both, when confronted with the problem of supporting a family in a modern city, find the cost of living as Mark Twain has said, 'a little more than you've got.'"

Professor Miller, in the most recent book on Social Insurance, concludes: "Thrift is a desirable habit for those who receive a wage that makes saving a possibility, but thrift becomes a mockery in the homes of the poor, and 'saving' an economic falsehood."

It is evident that the problem of economic support of the

aged is with us, and whether met in one form or another, society bears the burden. The giving of alms, however, either private or public, is not only insufficient and unsatisfactory, but as has been pointed out by many students before, it exercises a degrading effect upon the recipient and is repugnant to the self-respecting person. "While the social activities of the state are marked by humane legislation in many forms, for the betterment of the individual, its system of poor relief is antiquated. Poor relief makes no distinction between the worthy and the unworthy; the social stigma, the deprivation of citizenship and often the publication in the town report of the name of the recipient and the amount doled out to him, make the system onerous and the approbrius epithet of 'pauper' is the price the citizen pays for help." It is also evident that the retention of an old age employee in active service often involves economic waste.

To meet the problem adequately, systems of old age pensions or insurance are, therefore, urged, not only as a means of taking the aged workers out of the poorhouse and enabling them to spend their last years in self-respect and comfort but for many other reasons. "Social insurance has a significant effect on the national health and physique," says Frank A. Vanderlip, President of the National City Bank. It is contended that any system of insurance is preferable in individual savings. Insurance is defined as an arrangement by which the losses sustained by few are distributed among many. The individual savings against old age from this view point may be considered even uneconomic as it requires every person to provide by a lifetime of painful effort, with no absolute security, against a contingency which is certain to be experienced only by a few who survive. Moreover, it is argued by many students that "Wages ought to mean an income sufficient to insure support for life; and where such is not the case it is inevitable that supplementary means shall be forthcoming in old age to warrant a continued 'living.' Under such conditions public support should be considered as postponed wages, and not charity. The worker who has spent his life in industry, and whose wages have been legitimately consumed in support of himself and family, is entitled to 'supplementary' wages in old age. A pension in such cases may rightly be called 'postponed wages.'"

OLD AGE INSURANCE¹

A survey of the attempts at the solution of this problem discovers these lines in action:

1. Private enterprise, in the form of industrial insurance.
2. Cooperative insurance, through fraternal organizations and trade unions.
3. Corporation plans of retirement allowances to employees.
4. State action to establish a general system of old age insurance or pensions, including
 - a. Voluntary annuity plans,
 - b. Non-contributory pension plans,
 - c. Compulsory insurance plans.

Industrial insurance, which is insurance for small amounts with weekly payment and house to house collection of premiums, hardly touches the problem of old age insurance at all. Co-operative insurance, also, has contributed almost nothing toward the solution of this problem. The friendly societies of Great Britain and the fraternal organizations of the United States make provision for old age insurance only to a very limited extent. The chief function of fraternal insurance is the payment of death benefits to the family or heirs. It is to be observed, furthermore, that this insurance reaches the members of the working class only to a slight degree, and the ranks of low-paid labor hardly at all. The part played by the trade unions in the field of old age insurance is similarly inconspicuous.

Corporation pension or retirement plans, in contrast with the preceding, present a record of substantial accomplishment. The weakness of the corporation plans of old age pensions is that they interfere with the freedom of movement and action of the workers, and retard their efforts to better their position. In view of this drawback, the corporation pension idea cannot be regarded as offering a satisfactory solution of this problem, even for the limited class of workers for whom provision can be made in this way.

State action with reference to old age insurance has taken

¹ From article by F. Spencer Baldwin, Secretary, Massachusetts Commission on Old Age Pensions. American Labor Legislation Review. 3 : 202-12. June, 1913.

a variety of forms. Three main types of scheme stand out conspicuously, namely: voluntary annuities, non-contributory pensions, and compulsory insurance.

The Massachusetts savings bank insurance system, established in 1907, is the most interesting and promising experiment that has been made in the field of voluntary annuity schemes. The plan provides for the sale of insurance or annuities at low rates through the medium of the savings banks. The amount of insurance on any one policy is limited to \$500, and the annuity limit is \$200. Opportunity is afforded to employers to cooperate with their working people in providing insurance or annuities, by making contributions toward the payment of premiums, or assisting in the collection of the latter. This plan has been heralded widely as a final solution of the old age insurance problem. Its operation to date, however, does not bear out the claims of its more enthusiastic promoters. While the system has attained a gratifying measure of success, and incidentally has brought competitive pressure to bear upon the industrial insurance companies, resulting in a reduction of rates, it has fallen far short of meeting the full requirements of the situation. The weakness of the plan is the fundamental failing of all voluntary insurance systems: it fails to reach the mass of the working population, especially the class of low-paid laborers most in need of some provision for old age. As Professor Schaeffle has well said: "Experience has everywhere demonstrated that the great mass of those workingmen who are poorly off will not voluntarily insure themselves. Furthermore, the great majority of those who would like to do so cannot, on account of the smallness of their earnings. In other words, it is exactly that class which is most in need of insurance that either will not, or cannot avail themselves of this device."

The plan of non-contributory pensions is represented by the well known legislation of Great Britain and of the Australasian colonies. It is not necessary to describe the British pension scheme in detail. The original act of 1908 was framed to restrict the benefits of the system to the deserving aged poor, and persons while in receipt of poor relief and all who received poor relief after the first of January, 1908, until December 31, 1910, as well as aliens, criminals and lunatics were disqualified from the receipt of pensions. The special pauper disqualification became inoperative in 1910, and by an amendment of 1911 the conditions of eligibility with respect to nationality, residence,

imprisonment and receipt of poor relief were still further relaxed. This amending legislation, by the way, illustrates a characteristic tendency in the development of pension systems to make the conditions for the receipt of a pension easier, and to extend the benefits of the system more and more indiscriminately to a widening circle of beneficiaries.

This plan of old age provision is seriously objectionable, viewed from any angle, or judged by any test. In the first place, it is enormously and needlessly expensive. The cost of the British pension system has greatly exceeded all the preliminary estimates. The outlay for pensions in the fiscal year 1911-1912 amounted to nearly \$60,000,000, and the number of pensions approached closely to the one million mark.

The enormous and increasing outlay for pensions has not been offset by any appreciable reduction of the burden of poor relief, as advocates of the pension plan had predicted. One of the popular arguments for the pension policy has always been that it would reduce greatly the outlay for relief purposes. The reasoning is that the establishment of a pension system for the aged would keep them out of the almshouses. It is argued that the consequent reduction of the expenditure for poor relief would offset in a great measure the cost of the pensions. It has even been argued that the adoption of a pension plan would result in a net saving to the state. This argument is completely discredited by the experience of states that have established pension systems. The Massachusetts Commission on Old Age Pensions presented statistics showing that the cost of poor relief does not diminish, but rather tends to increase after the adoption of a pension system. This conclusion is borne out by the recent experience of Great Britain.

Another weighty objection to non-contributory pensions is the tendency to depress wages. Human nature being what it is, the employer in adjusting wage schedules and the employee in estimating wage requirements take into account the existence of the pensions. The inevitable result is a proportionate reduction of current earnings. The way in which wages are depressed through this influence is illustrated by the history of civil pensions in England. A system of non-contributory pensions for government employees was instituted in 1859. In the course of time, the employees became convinced that wages and salaries were lower in consequence of the pension system. Investigation showed this to be the fact, and the pension system

was finally modified and placed on a virtually contributory basis in 1909. The truth is that public doles in supplement of wages surely slip through the fingers of the intended beneficiaries.

The effect of non-contributory pensions on thrift is as unfortunate as the effect upon wages. The motives and energies of self help are weakened by this form of gratuitous state help. The assurance of public support in old age, unattended by any degree of discredit attaching to its acceptance, leads individuals to relax their efforts to make independent provision for their declining years. It weakens the incentives to individual saving. This proposition is disputed by Professor Henry R. Seager, who contends that the British pension policy, "far from discouraging thrift and foresight, will tend on the whole to encourage them." In his interesting lectures on Social Insurance he argues: "It is desirable to save and acquire property, to get on in the world, to give children a better start than their parents enjoyed, to be assured more than bare necessities as old age comes on, etc. These, the strongest motives leading to savings, are unaffected by the guarantee of a small annuity out of the public treasury after a certain age has been reached.

Finally, the effect of non-contributory pensions on the family must be set down as a further objection to the plan. A non-contributory pension system weakens the bonds of family solidarity. It takes away, in part, the filial obligation for the support of aged parents, which is one of the main ties that hold the family together. The supporters of the pension policy deny that this result would follow. They contend that, on the contrary, their plan would strengthen the family; they reason that the payment of small pensions to old persons would help to keep families together by making it possible for the children to retain the aged parent in the household in view of the addition that his pension would bring to the family income. While this might be true in individual cases, it can hardly be doubted that the general effect on the family would be disintegrating. The assumption by the state of the obligation to support the aged in their homes would undermine filial responsibility precisely as the guarantee of public maintenance of children would destroy parental responsibility. The impairment of family integrity is, in fact, one of the most serious dangers threatened by recent experiments with non-contributory pensions.

The plan of compulsory assisted insurance is typified by the well known German system. The general features of this system

are familiar, and need not be described here. Under it the cost of the insurance is divided with approximate equality between three parties,—the employer, the employed and the state. The employer is assessed, in the first instance, for the employee's contribution as well as his own, and deducts the amount of the former from the wages when they are paid. This system presents a direct contrast to the non-contributory pension scheme of Great Britain. The latter is based on the principle that the obligation to support the aged rests upon the state, and that the superannuated worker may claim a pension of the state as a right, not as a charity. The German plan is founded on the opposite principle, that the obligation to provide for old age rests primarily upon the individual, and that the state should enforce the performance of this duty, at the same time facilitating the required provision for old age through the contributions to the insurance funds by the employers and the state.

The German system has been in operation long enough to demonstrate to some extent its social effects. In the main, the results must be pronounced satisfactory. The plan is the most effective and successful scheme of old age support now in existence. The cost is much less than that of a non-contributory pension system. The old age and invalidity insurance cost the imperial treasury in 1907—the last year for which figures are accessible—a little more than \$12,000,000, as contrasted with nearly five times that amount for old age pensions alone in Great Britain. The influence of compulsory insurance on character and efficiency, as well as on family life, must manifestly be far less injurious than that of non-contributory pensions. It should be recognized, however, that any compulsory system must to a certain degree exercise an enervating influence on wage-earners. Compulsion is not favorable to the highest development of individual initiative, independence, responsibility, and self-reliance. Full individual responsibility as regards provision for old age exerts a healthful stimulative and educative effect on the individual. From the point of view of social effects, a voluntary system is certainly preferable to a compulsory. There is an inevitable weakening of vigor and resourcefulness under any compulsory scheme of social reform.

Notwithstanding the drawbacks of any compulsory insurance system, it is desirable that the solution of the problem of the old age insurance should be worked out along the line of the German experiment. It is evident that some comprehensive

plan of old age insurance or pensions must be adopted in this country, at some time in the near future. The inadequacy of private enterprise, cooperative insurance, and corporation plans is generally admitted. The voluntary annuity schemes, also, fail to afford a satisfactory final solution of the problem. If a general system of state insurance or pensions is to be adopted, the choice lies plainly between the British and the German plans. The objections to the former are so formidable that there should be no hesitation in making a choice in favor of the latter. The choice here is to some extent a choice between two evils. Neither plan harmonizes fully with the ideal of the strongest conceivable type of an industrial democracy. Of the two plans, however, that of compulsory insurance is decidedly to be preferred. Practical exigencies will sooner or later force American states to adopt one plan or the other, and while the ethical, practical and constitutional objections to compulsory insurance have much force, they weigh light in the balance against the far more serious objections to any plan of non-contributory pensions.

The exercise of compulsion, in order to make effective provision for old age insurance, is logical and justifiable. The principle of compulsory education has been adopted and widely extended; the principle of compulsory sanitation has been applied in various directions. Compulsory insurance may be defended as a needful measure of further state interference for the protection of society against the burden of old age pauperism, precisely as compulsory education and sanitation have been adopted to protect society against ignorance and disease. Until this principle is incorporated into the social legislation of American states, the problem of old age dependency will continue to vex us. The plan of compulsory assisted insurance is the only one that offers an adequate, comprehensive, workable, final solution of the problem.

PENSION PLANS IN INDUSTRY¹

Pension plans or systems have been introduced in industries of all kinds, but individually they have been copied or adapted from one another. There are only a few original patterns and

¹ From Problem of the Old Man, by Gorton James. Survey. 46 : 672-4. September 16, 1921.

these may be classed in three general types. Of one hundred and twenty-three systems recently studied, seventy-nine were of the non-contributory, discretionary type; twenty-four were of the non-contributory, contractual type; and twenty of the contributory type. Only ten of these one hundred and twenty-three plans, by the way, are over ten years old.

The introduction of these systems has not been purely a matter of charity. For the most part it has been expected that they would "pay" in one way or another. An examination of the underlying motives leading to the introduction of pension systems has revealed five principal reasons for designing them:

1. To Reward Faithful Service

This is the announced reason for the installation of most pension systems and yet no actual systems reward service as such either in proportion to its amount or to its degree of faithfulness. Surely faithful service cannot be said to be rewarded equitably or reasonably where twenty years of the best service a man can give, say from his twentieth to his fortieth year, are not given any reward if the man leaves at forty-one, whereas twenty years of service during the declining years from forty-five to sixty-five will bring him full rights to a pension. Nor is service rewarded when this same old man receives a pension after his twenty years of service, while his co-worker, who has worked nineteen years, and has become crochety in his old age, quarrels with his foreman, is fired, and gets no reward whatever for nearly as much faithful service as the first man. Yet this is what happens under the usual industrial pension plan. The worker does not receive a penny though he has served 95 per cent of the time required.

The trick that gets the pension is not faithful service after all but hanging onto the job at all costs and reaching retirement age without having done anything to cause discharge. The impetus is not toward faithful service, but toward not getting fired after one has reached forty years of age; in short, a negative quality of doubtful value is rewarded instead of the positive, desirable one.

2. To Establish a Means of Getting Rid of Superannuated Employees Humanely

Three companies have reported a general feeling of fear among the older employees when the installation of pension

systems was announced—fear that they were going to be forced to quit work before they were ready. Men who had worked all their productive years in the mills and knew no other life could not bear to think they were going to be forced to change. But rules are useless unless they are enforced; so the old men had to leave.

Then again in a certain company without any pension system for which service records were examined, 48.6 per cent of the men over sixty-five had been with the company less than three years and only 14.7 per cent had served over twenty years. There would be only two alternative solutions for this condition; either the bulk of the aged employees would be no better off under a pension plan than without it, or else an age limit of, say, forty or forty-five would have to be placed on the men hired. Would this not tend to accentuate the growing evil of cutting off means of earning a livelihood from men who are unfortunate enough to lose their jobs after they have reached forty-five?

On the other hand case after case might be cited of men who have clung to their jobs after they were not fit to work any longer, have suffered under bosses who have taken advantage of their position, merely because they must have, to sustain them, that pension only a few years ahead of them. Moreover, statistics show that there is a marked tendency for pensioners to die soon after the upheaval of retirement.

And finally, it cannot be considered wholly humane to force old men by the terms of pension plans to accept the ignominy of charity no matter how tactfully veiled or excused. Apparently pension systems of the types in common operation do not establish a means for humanely getting rid of the superannuated employees after all.

3. To Improve the Morale of the Working Force and Thus Improve Efficiency

In the reports from the companies having pension plans, forty-six out of sixty-three who mentioned the point said that the installation of the plan had been appreciated by the employees and sixteen said they thought efficiency had been promoted. Fifteen qualified their statements by saying that the older employees had appreciated it. It must be remembered, however, that almost all the plans are still new.

A number of labor leaders and other workingmen and women were interviewed to ascertain their feelings as to pensions and workers' insurance. There seemed to be a widespread impression that in all plans of this kind there is an ulterior purpose that if the workers do get something of value out of the plans, it is no more than their due. Gratitude was found only among men actually receiving pensions.

The official position of the American Federation of Labor voices the attitude apparently accepted by all organized labor, namely, opposition to all insurance or pensions by employers. Samuel Gompers says:

Paternalism either in government or in industry is abhorrent. It takes away the initiative of the workers who should themselves prepare for old age or the proverbial "rainy day." Where the workers receive an adequate wage—one that will permit them to live as an American should live—they will provide their own pension system, and whatever men do for themselves increases their value as workers. It brings independence and a desire to live as men should live, without fear of losing that which will protect them in their old age. *Labor, therefore, refuses to place in the hands of employers a weapon that can take away from the workers at the last moment any benefit that depends upon their servility.* [Italics author's.]

On the whole, there seems to be considerable question as to whether the installation of a pension system does not engender more suspicion and hatred than it inspires appreciation and gratitude among the bulk of the workers, since both old and young workers were found to suspect that there were ulterior motives behind the pension schemes. The answer rests perhaps not with the existence of the system, but with the method of installation and the general relations between the management and the employees, a matter outside the scope of this paper. Suffice it to note here that where there are unpleasant relations a pension system often acts as added proof to workers of the sinister purposes of the management.

4. *To Reduce Labor Turnover*

There are two theories as to how pensions and other forms of workmen's insurance reduce turnover. 1, They are supposed to indicate a sympathetic attitude on the part of the management, thus inducing men to work for employers who are thoughtful in this respect, and may, therefore, be supposed

to be kind in other ways; 2, these systems are expected to hold the workers because of the financial loss incurred by leaving.

Extensive investigation among both employers and working people has failed to bring to light any definite indication that pension systems have any influence whatever toward reducing turnover among younger employees, a fact corroborated by managers of some of the systems apparently most successful.

On the other hand, from the viewpoint of the employer, there is no point in inducing the older men to stay. It is increasingly hard for the older men to get jobs and they would not ordinarily leave an employer anyway. In short, the effect of pensions on turnover seems to be to repress it where the need to leave it free is greatest from the employer's standpoint. Where the need for improvement really exists, pensions either fail to influence turnover, or else actually increase it.

5. To Create a New Disciplinary Hold on the Employees

Although a few managers admit that there is any element of this intent in their plans, pension schemes have been used in a variety of disciplinary ways. Instances have been cited in the Survey of occasions where strikers have been threatened with the loss of pension rights. A well known company makes a practice, in the name of efficiency, of reducing their men as they approach retirement age, both in salary and in authority. The manager admitted confidentially that "he could not get away with this" unless these older men were controlled by the prospect of the pension.

A pension expert who has been instrumental in the creation of many plans, and who has personally prepared systems for some of the largest industrial companies, in commenting on a different kind of scheme suggested as a substitute for pensions, said: "From the standpoint of the individual employer, it would have the disadvantage, if it became anywhere near universal, that it would not tie the employees to him,"—the sense being that the ordinary pension would "tie the employees to him."

Most theorists who have discussed pensions maintain that they are, in essence, deferred pay. This theory, if accepted, throws the entire scheme of pensions, under any ordinary plan, into a system of tontine insurance. The tontine principle, which is now almost universally condemned, provides benefits for the few survivors out of the contributions of many; it is a grand gambling scheme of insurance. Now if pensions are

deferred pay, the portion of the wage thus deferred and used to pay the pensions of the few who become eligible is irretrievably lost to those who die or fail to satisfy requirements extending throughout the entire period of productive life. The few who both live and satisfy the requirements get pensions the cost of which is paid in small part by their own deferred pay, but mostly by the deferred pay of others who have died or not complied with the rules.

The test of whether or not pensions are deferred pay is not the lowering of wages where the system is in operation, but, wages being the same in two similar establishments, the fact that the pension system in one attracts employees from the other. Where the likelihood of receiving the pension is surrounded by doubt in the minds of the employees, it is probable that it partakes only infinitesimally, if at all, of the principle of deferred pay. But where the employees become the least bit interested in the pension plan or expectant of its benefits, it immediately becomes deferred pay in essence. This applies equally to "pension policies" where there is no system, but where the employer gives pensions informally to his needy employees. As soon as the employees see enough of their fellow workers receive pensions to feel certain, whether justifiably or not, that they in turn will be taken care of also, the pensions become essentially "deferred pay."

But wherever this principle comes into operation the employer ipso facto becomes responsible to the employee for the amount of the deferred pay. He should no longer be able to withhold or pay it at will. The principle of funds in trust should govern. That it does not do so is perhaps because this feature of pensions has not been fully recognized as yet by the law courts of this country. Of course this is especially apparent in the case of contributory systems where part of the "deferred pay" is put through the books in a grand attempt at camouflage as having been given to the employees and then taken back again and held for the payment of pensions (the employees seldom actually seeing their so-called "contributions"). In such cases especially it seems inevitable that, sooner or later, the funds thus held will be judged to be trust funds, and therefore subject to all the rigorous laws governing responsibility by the administrators of such funds.

Yet almost every system in existence today specifically

denies such responsibilities in the wording of its rules, although any lawyer must recognize the futility of such denials were the question once brought before the courts.

There is another complication which is of major importance. This is the cost. Few employers seem to realize the probable course of the cost of their pension schemes when they introduce them. Actuaries, again and again, have warned people that the ordinary pension plans, if carried out logically and fairly, may eventually cost 10 per cent of the payroll or perhaps double that for any normal group, according to the details of the benefits. Yet if any industrial pension plan actually began to rise to such figures, it would immediately be discontinued or changed, for few competitive businesses could stand the additional burden. As a matter of fact, no actuary can foretell what the cost of a pension plan will ultimately be. In addition to the uncertainties of life which enter into the usual life insurance, there are in the case of pensions such factors as: changes in the rate of turnover in the company; general changes in wage rates; fluctuation of the time after which the employee cannot continue to work efficiently; strikes or general industrial changes; improvements in sanitation and in methods of preventing industrial diseases, allowing a greater percentage of employees to reach retirement age; changes in machines or methods of work.

Most of these extra factors are quite unpredictable and any attempt to estimate them is pure buncombe.

From the standpoint of the employee, on the other hand, the prospect of the pension is dangled before him as something to which he is entitled as a reward for faithful service. Yet he would be wise not to count on it, considering all the chances there are of his finally failing to receive it.

He may die; he may get a better job and leave the company; he may be fired. The company may not pay him the pension after he reaches retirement age—it reserves the right not to if it sees fit; it may discontinue the entire plan before or perhaps after he reaches retirement age because of the unexpected increase in cost; it may discontinue the plan because of a change of policy—it reserves the right to discontinue the plan at any time; or the company may be dissolved or bought by another company with a different policy.

To sum up: It seems to be expedient for employers to provide some means for taking care of their employees during old

age, but none of the various schemes for industrial pensions in current use meet the exigencies satisfactorily and their cost is a matter of great uncertainty, which the companies are assuming as far distant future obligations.

CASE FOR AND AGAINST UNIVERSAL AND PARTIAL SCHEMES¹

When either the compulsory-contributory, or non-contributory pensions are discussed the question whether they shall be universal or partial, is to be taken into consideration. The universal scheme involves a total change of front as to the policy of public relief. It is based no longer upon the theory of relief of destitution only. It aims to extend pensions to all, or almost all, the aged over a certain age without any conditions. The funds to be drawn from the common purse. This would necessarily involve a steady increase in both the number of persons and cost and would, as stated by Sir Charles Booth, mean that "the policy of doing so is the opposite of that adopted in savage states, where the old, when incapable, are knocked on the head." No such system, however, is as yet, in operation anywhere. The principle of partial insurance or pensions is, as was pointed out before, established now in many countries. Pensions established now by foreign countries are given only to men and women belonging to certain wage groups or to persons having fulfilled certain specified requirements.

The universal principle is advanced principally, because, it is argued, if pensions were offered to all aged persons, it would remove entirely the savor of dependency or pauperism. Charles Booth, the foremost advocate of universal pensions in Great Britain, presents the case for such a system as follows:

The idea in the minds of those who think that poverty and desert should be the conditions of relief, tend rather to an elaboration of the Poor Law, which by classifying those who ask its aid and varying the awards, shall make them as often a mark of merit as a stigma of disgrace. I must confess that this, to me, appears an impossible ideal. I can imagine no court of inquiry that could be trusted. I believe that the selected poor who receive pensions or were provided for in almshouses, to which only their poverty and their good conduct entitled them, would still be considered and consider themselves paupers, by

¹ From Pennsylvania. Commission on Old Age Pensions. Report. p. 232-4. March, 1919. Harrisburg.

whatever name they might be called. If to obtain a certificate of merit involved a searching inquiry into the past life of each applicant, it would, I believe, be strongly resented, and most of all by the most worthy. Even the simplest form such an inquiry could take, limiting itself to proof of thrift, would be unsatisfactory, as the best proof of thrift would always lie in having no need to apply.

He further argues:

Indoor relief lacks humanity and outdoor encourages improvidence. We are therefore justified in seeking some better plan. Pensions at sixty-five are suggested, to be acquired voluntarily with state aid. But, to be effectual, the system must be universal, or the improvident would still trust to the rates (outdoor relief), and their treatment unceasingly oscillate between foolish kindness and unpopular severity. If the system is to be universal it must be compulsory; and if compulsory, its cost, however collected, is taxation. Moreover, to be satisfactory, the system must apply to the old of our own time. We shall not tax ourselves for a benefit only to be realized after forty years have passed. But if this system is to be universal, and to apply to our own old people, the forms of insurance become absurd. Why earmark the payments and accumulate funds at all? It is not insurance we require, but the endowment of old age.

In another connection he states:

Benefits which all may enjoy carry with them no slur. Educational endowments are enjoyed by the rich, free elementary education as bestowed upon the poorer classes, the facilities offered by free libraries, etc., are cases in point. Pensions open to all and paid for out of taxation would have nothing, either morally or economically, in common with pauperism.

And again:

No other plan of selection is possible except at sacrifice of independence. To select the poor is to pauperize, to select the deserving is to patronize. To do either is to humiliate.

In favor of the universal plan is also urged its simplicity and cheapness of administration. This system requires no complicated or troublesome conditions of eligibility, nor does it entail many details.

Many of the objections to the universal plan have already been stated in the discussions of the compulsory and non-contributory systems. What has been brought against the former systems may apply equally as well, and even more so, against the

universal scheme. Additional objections offered are: (1) Its increased cost. A universal scheme is obviously the most costly of all pension systems, and, it is pointed out, that to give a pension to all people—to well-to-do and wealthy who do not need them—is a waste of money. (2) There are also objections against the giving of pensions indiscriminately to undeserving persons such as criminals or paupers. "The inclusion of criminals and paupers within the pensionable population is indefensible on any ground of individual desert or public policy. Such persons clearly have no claim to a pension, whatever may be true of the deserving and respectable aged poor. Moreover, the policy of pensioning the industrious and thrifless, the sober and the intemperate, the deserving and the undeserving, indiscriminately, would be in the highest degree pauperizing and demoralizing. It would put a premium upon thriftlessness and dependency." (3) It is also argued that any such state-wide scheme has no finality to it. Once embarked upon a venture, there would always be the agitation and temptation to reduce the age of pensioning and increase the pension amounts. (4) Under a universal scheme there would be even lesser means of preventing fraud and imposition. This, it is pointed out, is continually taking place in army pensions. (5) The pensioner may dissipate his income on the day when it is paid. The pension, it is also claimed, would benefit little, those who are too old or infirm to live alone.

OLD AGE PENSIONS FOR FEDERAL EMPLOYEES¹

The enactment in 1916 of a model federal workmen's compensation law, which provided indemnity for half a million civilian employees of the government in case of industrial accident or occupational disease has now been supplemented by the establishment of contributory, compulsory, old age and invalidity insurance for the government's three hundred thousand employees in the classified civil service. Passage of the Sterling-Lehlbach bill puts the United States a long step ahead in farsighted care for men and women who faithfully spend their lives in serving it.

¹ By John B. Andrews. Survey. 44 : 271. May 22, 1920.

The Federal Civil Service Commission had repeatedly urged provisions which would "give stability to the service, create an inducement to capable men to continue in it, and contribute to improved administrative methods," and assist in other improvements. Bureaus and departments were chock full of dead wood which could not be cleared out under existing conditions without turning into the street penniless men and women who had given the best of their lives to the government. The need of an adequate retirement system which would assist in keeping the working efficiency of the government up to par without inflicting unwarranted hardship on those who had grown old in the ranks was everywhere recognized. In one department it was estimated that two hundred and fifty people could do the work at present performed by one thousand such superannuated employees. Some of these were working at only 90 per cent, 50 per cent, 25 per cent or nearly as low as zero per cent efficiency. Yet it would have been intolerably inhuman to turn them adrift in the absence of some stable provision for their maintenance. Again and again an adequate retirement system had been urged as a matter of sheer economy.

The measure provides for the retirement of railway mail employees at the age of sixty-two, mechanics, letter carriers and post office clerks at sixty-five, and all other members of the classified civil service at seventy. Reasons of "economy," put forth by Senator Smoot of Utah, led to the adoption of these retirement ages instead of sixty, sixty-two, and sixty-five proposed for the three groups respectively in the original bill. Any employee able and willing to carry on his duties efficiently may, in the discretion of the head of his department, and on approval by the civil service commission, be continued in his position beyond the retirement age for two periods of two years each but no longer. On retirement an employee becomes automatically eligible to a yearly pension ranging from \$180 to \$720, according to salary and length of service.

No one who has not been employed by the government for at least fifteen years is entitled to benefits under the law. In addition to the old age pension provisions, the act establishes the same benefits for those who, after fifteen years' service but before the retiring age, become totally disabled because of disease or injury "not due to vicious habits, intemperance, or wilful misconduct." Recipients of disability benefits, unless their

incapacity is known to be permanent, are to be examined annually by a United States medical officer or a designated physician to determine whether they are still eligible to the benefit.

An estimate submitted by Senator Smoot put the probable cost of the retirement feature of the law for the first year at a little over \$2,000,000, increasing gradually to more than \$18,500,000 in the seventy-seventh year of operation. The employees' contribution toward the raising of this fund is made through a deduction of $2\frac{1}{2}$ per cent from all salaries. Since the deductions are graduated according to income in all cases, but benefits are held at a flat rate of \$720 for all employees who receive \$1,200 or more, some of the higher-priced men will be paying proportionally more for their annuities than those with smaller salaries. However, agreement on this point was reached before the bill was introduced, the higher paid men foregoing larger annuities for the sake of getting the much-needed system adopted. Employees' contributions, it is computed, will cover about one-third of the expense of the law. The remaining two-thirds, the government's contribution, will be paid from general taxation.

The interests of those who leave the government's employ or die before attaining the age or length of service necessary for retirement are fully protected. Such persons or their representatives are entitled to receive all moneys paid into the "civil service retirement and disability fund" with interest compounded at 4 per cent annually. If an annuitant dies before he has received benefits equivalent to his contributions together with the compound interest at 4 per cent, the difference is to be paid in a lump sum to his representatives.

AFFIRMATIVE DISCUSSION

SYSTEMS PROVIDING FOR OLD AGE¹

Dr. Rubinow after an exhaustive discussion of the voluntary schemes in the several European countries concludes:

1. That even a heavily subsidized system of voluntary old age insurance attracts only a small proportion of the working class, presumably of the better-paid strata.
2. That even of those who begin accounts, a large and growing proportion fail to continue to make the necessary contributions with any regularity.
3. That usually only the minimum is contributed which is necessary to acquire subsidies.
4. That the workingmen are forced to reduce their old age pensions in order to safeguard the interest of their families, and
5. That the pensions actually acquired are pitifully small.

Compulsory Contributory Insurance is a logical result of the failure of the voluntary systems. The great mass of wage-workers being either unwilling or unable to insure themselves against old age. European governments sought to overcome this by making it obligatory for certain classes of wage-workers—whose yearly income did not exceed a certain amount—to insure themselves against old age. The government making it attractive on the other hand, by subsidizing the insurance. Germany was the first country in Europe to establish compulsory insurance of working people. A system patterned after the German one was later adopted by France in 1910. Systems embodying the compulsory principles are also established in Austro-Hungary, Greece, Iceland, Italy, Luxemburg, Netherlands, Rumania, Russia and Sweden.

Under the compulsory form of insurance all wage-earners earning below a certain income are compelled to insure. Salaried workers above a set amount are not obligated to insure but may, in common with other classes, take out voluntary insurance. Participation in the plan begins at an early age. Contributions are generally made both by the employer and employee in equal

¹ From Pennsylvania Commission on Old Age Pensions. Report. p. 218.
31. March, 1919. Harrisburg.

parts. The state's contribution consists of bearing the expenses of administration. In addition, it also makes a direct contribution to the pension after it has matured. In Germany the contributions of the workers are graded in accordance with their income, while in France it is uniform for all adult males, females and minors. The employees' contributions are collected by the employer who is allowed to discount them from the wages of his workers. The age when one becomes entitled to a pension is set at sixty years of age in France, and seventy years in Germany. Before a person, however, can receive a pension he must have a necessary number of contributions; this in Germany is twelve hundred weeks, and in France thirty annual contributions. To protect also those who cannot make the required number of contributions, provisions are made in both countries reducing the required period of contributions by forty weeks for each year of age over forty in Germany and thirty in France, when the law went into effect. The amount of the pension allowed under these plans is very small, rarely exceeding \$60 a year—an allowance which cannot obviously go very far. No country which has introduced compulsory insurance has at any time attempted to raise more than 50 per cent of the necessary funds from the insured persons. In Germany the contributions from the insured persons amount to about 40 per cent of the total disbursements, while in other countries it amounts to about 30 per cent of the funds disbursed.

The advantages of the system of compulsory contributory insurance are as follows: (1) Its possibility of universality. By means of compulsion, insurance cannot only be extended to all classes that need most the protection against old age, but can also be made most effective. "Obligatory insurance, and obligatory alone, by making the support of the insurance an indispensable item of the family budget, will act upon wages in such a way as to raise its standard, which increased expenditure will be shifted upon the cost of production and prices, and thus make a general industrial condition to be borne without any appreciable hardship." (2) Compulsory insurance avoids the dependence upon charity. Under this system the worker gets his pension as a matter of right even when he is not poor. "It is not a dead-level system. It preserves a normal relation between the standards of life before and after the age of pension and also preserves a just relationship between services rendered and the rewards granted, for it is usually based upon the

length of contributions, which is the length of productive activity." (3) It encourages thrift even tho not of a voluntary nature. (4) The need of old age pensions is largely a result of the industrial problem and ought to be borne by industry. "It is economically just, in so far as it exacts a contribution from the industry, for superannuation is not less a factor of modern industrial life than is the rate of accidents or of sickness. If it be just that each industry should contribute to the cost of accident compensation in proportion to the number of accidents occurring, rather than that the entire cost be forced back upon the national treasury, it would seem to be equally just that an industry which uses up men by forty-five or fifty-five years may be made to contribute to the cost of old-age support in a greater degree than another industry or occupation in which men can preserve their productive life until sixty-five. Looking upon it in another way, the justice of the claim may be admitted, that a contribution on the part of the industry to old-age insurance is but a deferred wage. . . If, under modern industrial conditions, it could be expected that the wage-workers themselves would be able to raise the standard of wages to the necessary level so as to include the cost of old-age support, and that they would use this additional increment for that purpose, no compulsory system would be necessary. But the compulsory system is necessary just because these two conditions are found to be impossible." (5) It does not burden taxation directly. (6) Compulsory insurance is urged because of the fact that more countries have adopted this plan than any other, and because it has proved successful in Germany.

The objections to the compulsory principle of insurance are: (1) It cannot be made universal as it omits many who may need such protection, no less than wage-earners. It is pointed out that it can only be made to apply to persons who are in regular employment. It is almost impossible to collect contributions of persons who are irregularly employed, of agricultural laborers, of those who are their own employers, of women who work at home not for wages, of small merchants, and so forth. (2) It is impossible even through compulsion to reach the poorest class of workers who are most in need of old-age support. These people cannot save enough to contribute to pension funds. Thrift among workers who do not receive a living wage, it is contended, is a mockery, uneconomic and unsocial.

(3) Compulsory insurance lessens the quality of self-help and reliance in the individual. "If this is the country of wealth it is also the country of individualistic ideals and achievements. It was founded to secure individual liberty of thought and action with opportunities for working out one's own salvation. This is its peculiar destiny and its special mission, and its greatest contribution to humanity will be in terms of character rather than wealth. Not for any reason of sentiment, but because our national progress under the individualistic ideal has been such as to demonstrate its wisdom and soundness, do I believe we should take no steps calculated to take us away from this path of development."

(4) Where the compulsory system is established the sums contributed by the insured are practically insignificant. Not only does the state make a direct subsidy to the insured, but it also bears the expenses, which because of the inherent complexities of conducting the administrative machinery, and the recording of facts for a long period of years with reference to contributions, is enormously expensive. It has therefore, been advanced that there is practically no difference between the state paying pensions outright, and collecting the contributions by the compulsory principle. (5) Compulsory insurance is class legislation as it places the wage-earning classes under a special regime. It necessitates the creation of a vast bureaucratic system. "It would be nothing but taxation, and being exacted from unwilling subjects, would carry with it none of the good influence of voluntary thrift." (6) Old age is not a problem of industry alone for people grow old despite all human efforts. "Old age defines itself." (7) The amount of the pension is small and the age is set too high. The pensions as paid in European countries are, as is commonly expressed, "too little to exist on and too much to die on." (8) Compulsory contributions are inelastic and cannot be adjusted to the particular needs of the various industries and localities. (9) It is un-American, distasteful and contrary to the American spirit. The compulsory principle, it is claimed, is intolerable and would not be accepted by the American citizens. Mr. Arthur M. Huddell, a dissenting member of the Massachusetts Commission states the case as follows:

To my mind, compulsory insurance is un-American, and cannot be considered in any way as a solution of this question. The wages of the workman will not permit of any compulsory

assessment for insurance. There is a vast difference between this and compulsory sanitary laws, compulsory education and compulsory quarantine laws. A poor man can comply with any of the above laws without an expenditure of money or in any way reducing his wages, which he could not do with a compulsory insurance law, as that would be equivalent to a reduction in wages. There is not sufficient margin between the living expenses and the wages of the workman to permit that reduction in his wages.

(10) The compulsory principle is also believed to be unconstitutional as it obligates certain groups to set aside a certain percentage of their earnings to provide for old age.

Straight or Non-Contributory Pensions

Just as the compulsory insurance principle was an outgrowth of the failure of voluntary insurance, so is the establishment of straight pension systems a result brought about by the complexities and ineffectiveness of the compulsory insurance principle. Straight pensions are comprehensive and immediately effective, as compared with the compulsory forms which require a long term of years before they may work themselves out and be able to cope with the immediate problems. Originally state pensions were given as a result largely of the pressing problem of poor relief. This form of outdoor relief, was an improvement over the indoor relief which bore the brand of pauperism. Under this system neither the employer nor the employee make direct contributions. The funds are paid out from the general treasury. Systems of gratuitous pensions have been adopted by Denmark, New Zealand, Australia, France, Great Britain, New South Wales and Alaska and Arizona in the United States.

State pensions are usually granted to all persons complying with certain requirements. The specifications usually state that a person before receiving a pension must have attained a certain age; that he must have been a citizen of a long period of residence; that he must not have an income from any source above the specified amount. And sometimes it is also required that he must have fulfilled a certain period of service. In addition to these, most countries require also, certain moral and character qualifications. In many countries pensions are denied on account of family desertion, neglect of minor children, drunkenness, or prison sentence. It is generally specified that pensions are given to the "deserving poor." The first of these systems was

established in Denmark in 1891. Due to the influence of Lloyd George, a straight old age pension system was adopted by Great Britain in 1908. In 1915, Alaska and Arizona in the United States had enacted similar systems. Although the principles involved are the same in all countries, the requirements and qualifications are widely varied in the several countries practicing these systems of pensioning the aged people.

The non-contributory form of old age relief is one of the most popular and most widely discussed plans. The advantages of this scheme over the voluntary and compulsory systems are as follows: (1) Its simplicity. Straight pensions are given only under definite and well defined conditions; the amounts are fixed and require little administrative expense. (2) Straight state pensions are just, as it is the duty of the state to take care of its aged poor. This obligation of the state, it is pointed out, has been recognized by the latter long ago in its distribution of poor relief. Pensions in old age would accordingly involve only the removal of the stigma and degradation of the present system of poor relief. It is claimed that the state, at present, relieves every class of suffering except old age. Pensions are, therefore, aimed to remove the sufferings and terror associated with old age. "It is compulsory now upon our citizens to make a living, but if they wish to become criminals, the state will support them. But the man who wants to remain a law-abiding citizen and try to support his family is compelled to provide for old age, when the facts are that he is unable at the present time to secure many of the comforts of life. Every law-abiding citizen has rendered to his country some service, which entitles him to look forward to a pension given in return; and as at present the premium placed upon crime and poverty is un-American, something should be done to provide for the law-abiding, self-supporting citizen." (3) Although nominally non-contributory, it is contended that in reality all have contributed in the taxes they have paid. Mr. Lloyd George pointed this out as follows: "As long as you have taxes upon commodities which are consumed practically by every family in the country, there is no such thing as a non-contributory scheme. . . Again, the worker who has contributed by his strength and his skill to the increase of the national wealth, has made his contributions to the fund from which his pension is to come when he is no longer able to work." It is thus argued, that those who have

given a considerable part of their lives in useful service have already made those contributions to the state and are entitled to freedom from the dread and anxiety of their needs during their declining years, and from the brand of pauperism. (4) The cost of the pension could be met considerably by savings on poor relief. The extent to which this would hold true in Pennsylvania is discussed in other parts of the report. (5) Non-contributory pensions by the state would encourage people to greater loyalty, ambitions; independence and hopefulness. It is argued that, "any change that will increase the feeling of security and confidence with which wage-earners contemplate the future will tend to cause them to make rational provisions for the future." James T. Buckley, another dissenting member of the Massachusetts Commission argues that, "Assurance through a pension, contributory or otherwise, that one's last days would be spent in peace and comfort, with no fear of poverty and want, would have a strengthening influence upon the individual, enabling him to go to his daily task with a calm and contented mind, and would tend to increase 'the sense of personal responsibility and independence.'" (6) Pensions in old age would keep families more closely together. It would increase filial affection and respect for parents. "A pension would bind the family more firmly together, for oftentimes the grandparent with a small guaranteed pension would be a welcome addition to the family of the son or daughter, when without this he would be only in the way."

The chief objections to straight government pensions in this country were stated by the Massachusetts Commission on Old Age Pensions, Annuities, and Insurance, in its report of 1910. This Commission concluded that, "The adoption of any scheme of non-contributory pensions in Massachusetts, or any other American state, seems inadvisable and impracticable." The reasons given were as follows: (1) The heavy expense involved in such a scheme. The Commission estimated that for Massachusetts to pay a pension of \$200 per year or \$4 per week for half the population seventy years of age and over, would cost that state not less than \$10,000,000 per year.

The cost of providing pensions from sixty-five years of age and on would of course, be greatly increased. The 1910 census gives the population of Pennsylvania sixty-five years of age and over as 325,918. A similar estimate for half the population of

sixty-five years and over in Pennsylvania would involve an expenditure of \$32,591,800. To this it is argued that the great part of this cost is already paid by the citizens at present by means of the different charitable and philanthropic forms. Moreover, it is advanced by a dissenting member of the Massachusetts Commission that the argument of heavy expense "is fallacious; for the ultimate expense of any given project is the same, whether that cost be levied directly upon those who are to benefit by the scheme, as in the proposed contributory schemes, or indirectly upon the same beneficiaries through the medium of the state tax." Again Dr. Rubinow argues that "when an institution is to be established, first, its necessity, its usefulness, or harmfulness must be considered, and only then the question of ways and means comes into the foreground." (2) Straight pensions is class legislation as it taxes the rich for the benefit of the poor. "There is no real ground for the assertion that because an industrious man has failed to earn a sufficiency, he has a right to be rewarded for his industry out of the proceeds of a tax levied upon his neighbors, to whom he has rendered no service, or none which has not been paid for in wages."

(3) Gratuitous governmental pensions would destroy the habit of thrift, as it would lessen the sense of personal responsibility and independence. The case for this contention is stated by a leading opponent of social insurance in this country as follows: "It will undermine and tend to destroy the self-respecting character of our people as citizens of a democracy where economic independence, achieved by individual effort, self-sacrifice and self-denial, is, after all, the only aim worth while. However much we may be inclined to permit ourselves to be deceived by specious arguments of guess work philanthropy into believing the gift is to help the recipient and not to hinder, such gifts, with rare exceptions, are opposed to the principles of character-building and of character-maintenance throughout all the years which constitute the span of human life. . . Hold out the prospect that such effort is not necessary, that earnings may be squandered for a thousand and one needless purposes, that restraint upon family expenditures is not required, and the most powerful incentive which makes for character and growth in a democracy is taken away." President A. T. Hadley, of Yale University states: "We need measures which shall increase individual responsibility rather than diminish it; measures which

shall give us more self-reliance, and less reliance on society as a whole. We cannot afford to countenance a system of morals or law which justifies the individual in looking to the community rather than to himself for support in age or infirmity."

These arguments are refuted by students of the problem by pointing first to the fact that the great majority of the people who reach old age and who qualify for pensions in the countries having pension systems, is in itself sufficient evidence that there was either no habit of thrift to be destroyed or that the conditions of the wages were so low that savings were impossible. It is also evident that the habit of thrift can hardly be destroyed by a pension—which at best, is hardly sufficient to keep body and soul together—paid at the remote and uncertain possibility of attaining old age. On the contrary, it is pointed out, it would be an incentive to saving as the pension allowance meeting only the bare necessities would enable a person with a little savings to spend his declining days in comfort. The Wisconsin Industrial Commission, in its report of 1915 points out that non-contributory pensions do not discourage saving and cites the example of Denmark which was the first to establish such a system, and where after twenty years of experience the number of applicants for old age pensions shows a tendency to decrease rather than the contrary, so that it cannot be said that habits of thrift have declined.

(4) It is also contended that non-contributory pensions would lower wages. This argument is based upon the following assumption: (a) Because of the direct competition of the pensioned employee. (b) The prospect of a pension in future years would lead workers to accept lower wages than they would otherwise be disposed to demand. This it is claimed is the case in the industries where pensions are now established. (c) It would encourage undesirable immigration, as it would invite immigrants from outside the state, and thus depress the wage rate by overcrowding the labor market. The fallacy of the first of these points has already been pointed out in another place, where it was shown that the number of people still able to do work at the age when pensions are given is very insignificant in Pennsylvania. These men are a very unimportant factor in the labor market. Moreover, this argument, if true, would apply equally as well to any form of savings or even contributions from children. Again as was pointed out before, it is evident that a man with no income whatsoever is a more dangerous

competitor in the labor market than the man with some means of support. The second argument is obviously far-fetched. It requires a lot of imagination to suppose that the prospect of a very meager assistance in their old age would alone be sufficient to make wage-earners work for lower wages. Furthermore, it is known to all students that the wage rate paid, at the present time, does not presume savings for old age as a prime element and daily necessity for the working people. While there is some truth that in the industries having regular pension systems the wage rates of certain classes of workers—especially those past their middle age—may be lower than in other industries not having such systems, it is because there is the incentive to work in the one particular industry over the other. How a state-wide pension system could have a similar effect is difficult to see. As to the third contention of encouraging immigration it is not borne out by the facts in the countries where such systems are in operation. Long terms of residence within the state is required everywhere, and immigration, as is well known, is not popular with men past middle age. That a small pension given, when reaching old age would hardly be a sufficient inducement to young immigrants, is self-evident.

(5) Straight pensions, concludes the Massachusetts Commission, would have a disintegrating effect upon the family. "A non-contributory pension system would take away, in part, the filial obligation for the support of aged parents, which is a main bond of family solidarity. It would strike at one of the forces that have created the self-supporting, self-respecting American family. The impairment of family solidarity is one of the most serious consequences to be apprehended from an experiment with non-contributory pensions.

Mr. A. M. Huddell, in presenting a dissenting opinion upon this point states:

The facts that are before us as to the influence of pensions on the American family have either been entirely overlooked or misconstrued by the majority of the commissioners. We have before us the pension of the veterans of the Civil War, their widows and orphans, and I fail to find the evidence that warrants any statement to the effect that this pension by the United States Government has disintegrated the family, or lessened "the filial obligation for the support of the aged parents," or has in any way impaired the family solidarity. On the contrary, the pensions to the veterans of the Civil War has built up the American family, and the filial obligation of the family has been strengthened and its solidarity maintained. An old person

living with a married son or daughter that is striving to bring up a family and provide for them as an American family should be provided for, and give to the children a proper education, can find a place for the veteran or his widow who receives a pension from the government in the family, because they do not take away from the family any of the necessities of life, or stop in any way the education of the children. At the same time, the independence of the veteran or his widow is maintained, because they have enough to pay for their needs at that period of life. . . With this pension the old veteran and his widow are made comfortable in their old age by living with their children, their friends, or in homes where they are paying their own way, and have a feeling of independence that old people should have. They know they are not taking away from the family any of the necessities of life, or hampering the education of the children through any expense of their own support. Any extra expense in the workman's family directly affects the education of the child, compelling him to leave school and seek employment to help maintain the family.

The same argument is also answered by Mr. L. W. Squire as follows:

Fortunately or unfortunately, according to the standpoint of religion and economics from which one views the matter, we Americans have not that conception of the family, as the unit of society, and that reverence for old age, which is ingrafted upon the heart of the Oriental in all his religious and economic training. In China and Japan it is rare to find any individual in want above sixty years of age, who has not some relative, no matter how remote, whose ethics and religion command him to make a place in his home for the indigent one, and provide for him as if he were a member of his own immediate family. Almshouses, private indoor or outdoor relief, for the old, are hardly known in those Oriental lands, where high ethical regard for the aged is instilled into the individual common mind from infancy. Unfortunately, however, in this country, no such esteem for the aged one prevails, except among his near relatives and especially in agricultural communities. In our manufacturing centers especially, the helpless, destitute grandfather or grandmother is regarded as a distinct burden to the household, the carrying of which oftentimes forces the children out of school and into the streets, factories, or shops, in order to provide for the added increment to the household expenses which the taking on of an aged relative, no matter how near he may be to the immediate family, entails.

From the Commission's studies it was seen that in the case of both almshouse and benevolent institution inmates, more than 65.5 per cent had no children living. Of the aged applicants for relief, about 40 per cent had no children, and among the general aged population, altho the percentage of those having no

children at all was little more than 10 per cent, only 24 per cent of the aged were actually supported by children, while 43 per cent had no other sources of income.

(6) Straight pensions are objected to also because they resemble charity much more than a system of insurance in which the worker makes a contribution. This, however, depends largely upon the public opinion. Considered in the light of deferred real wages instead of poor relief, the receipt of a pension would not involve any degrading effects.

(7) Non-contributory pensions by the state, argues the Massachusetts Commission will result in "mischievous political effects. It would open the door to political favoritism of various sorts." William H. Lacky contends that "Such a question would infallibly pass into the competitions of party warfare. It would become in most constituencies one of the most prominent of electioneering tests. Rival candidates would be competing for the vote of a wage-earning electorate who had a direct pecuniary interest in increasing or extending pensions and in relaxing the conditions on which they are given. Can it be doubted that in many cases their first object would be to outbid another, and that national and party politics would soon be forced into a demoralizing race of extravagance?"

(8) The constitutionality of such a scheme is also questioned by the Massachusetts Commission. Strangely enough, however, it admits that firemen, policemen and teachers who "are not only rendering peculiarly hazardous meritorious services to society, but also have deprived themselves of the full opportunity of earning the largest returns for their services in a competitive way . . . have some claim upon the state for special consideration in the matter of public support in old age. This claim, however, cannot exist in the case of persons employed in the ordinary competitive callings." The fallacious method of the Commission's reasoning at this point is self-evident.

OLD AGE PENSIONS¹

The preamble to the "old age pension act" of 1898 of the New Zealand Parliament, which is now before me, states the position of the colony in the matter clearly. It runs as follows:

¹ From article by Hugh H. Lusk. Marlboro, New York. Arena. 23 : 635-46. June, 1900.

Whereas, it is equitable that deserving persons who during the prime of life have helped to bear the public burdens of the colony by the payment of taxes, and to open up its resources by their labor and skill, should receive from the colony a pension in their old age.

Here, it will be remarked, there is no question of charity, and no note of complaint as for a burden submitted to but unwillingly borne. It is not because the community cannot permit the aged among its members to die of starvation, or to be tempted to crime, that it proposes to grant these pensions, but as a matter of justice and right. It is because these persons have an equitable claim on the community in which they have lived and worked, which it would be dishonest to deny and unjust to ignore. It is because the persons who are to receive the pensions have deserved well of the country; because in the past, while they had the power, they helped to bear the burden of its taxes, by which all, especially the rich and successful, have profited; because their labor and skill thrown into the common stock helped to develop the resources of the country, and so to benefit, to an extent practically incalculable, those who succeed them; it is for these reasons, and such as these, that the people of New Zealand propose to make their old age comfortable and their position honorable.

This legislative experiment of the people of New Zealand is noteworthy not only because of its novelty in the history of social legislation, but still more because it proceeds upon a new principle and recognizes a new code of social ethics not hitherto acknowledged in the legislation of civilization. The new note struck is one of gratitude on the part of society to those who have served it well. It is no longer a question, as it has been in all the legislation for the helpless in the past, as to how society can protect itself at once most cheaply and effectively, but how it can best recognize the services that each respectable and honest citizen has rendered to his fellows by the mere fact of his brotherhood. This principle is more important than even the special application of it to the case of helpless old age. It may be found that the particular application needs many amendments, but so long as the principle is maintained the amendments may be trusted to come. The substitution of the rights of its members for the collective selfishness of the community at large, of gratitude for past services for a grudging impatience that

there is no longer anything to be made out of those who in the past have borne the burden of the country's taxes and by their industry developed its wealth, and of the recognition of social obligation instead of that of social self-interest, furnish a new motive for legislation the wider application of which may yet be the means of solving many problems.

NEGATIVE DISCUSSION

OLD AGE PENSIONS IN GREAT BRITAIN AND IRELAND¹

The old age pension bill has become law in Great Britain and Ireland, and the act will go into operation on January 1, 1909.

Its scope and conditions were described in Charities and the Commons for October 3. Both before and after the passage of the bill the case against old age pensions has been urged in many English publications and periodicals. Some passages from these articles are here quoted in the belief that they deserve serious consideration.

It may be noted that among those who most strongly oppose non-contributory old age pensions are men and women who have worked all their lives to improve social conditions, to clear away obstacles, and to open opportunity to those born to least opportunity.

"Of some five committees and commissions which have considered the question of state pensions three have reported unfavorably, two favorably. The adverse reports are by experts, the favorable reports by members of Parliament, the majority of whom were already pledged to the principle" (of old age pensions).

The opponents of the bill believe that instead of promoting human welfare and happiness old age pensions will create distress and unhappiness:

First, because they will tend to weaken the instinct of independence. The happiness of a country is based on the happy, independent family-life of the great majority of its people. Whatever undermines independence pulls the props from under the happiness and welfare of the community.

"The strength of a community is to be found in the strength of its individual members, and dependence is inconsistent with

¹ By Frances R. Morse, Boston. *Charities and the Commons.* 21 : 356-9. December 5, 1908.

strength. Men should live by the fruit of their labor in old age as well as in working-years.

"Relief is a Dead Sea fruit which turns to ashes, a substitute for justice which sanctions injustice and the underpayment of labor."¹

"If personal responsibility can be abolished without fear of a disastrous relaxation of economic discipline, there is no intelligible reason for confining this principle to the treatment of old age. There are many risks of life to which the same measure must logically be applied, and without doubt an irresistible agitation will be set on foot to increase the amounts and multiply the occasions on which public money must be expended. If because it may be difficult for a poor man to maintain his independence in this or any other vicissitude of life we are therefore to withdraw the whole series of life's obligations, as at present understood, from the individual, and to make the state responsible for their discharge, the whole training ground on which men have hitherto been forced to acquire habits of economic competence is closed, and a momentous change in the discipline and education of the nation must inevitably follow. This is a step in a much larger revolution, for which, it is submitted, the country is by no means prepared, and the beginning of a change which all who regard character and thrift as necessary contributory elements in the comfort and happiness of the mass of the people should strenuously resist."²

Secondly, because they will tend to weaken family integrity and family responsibility.

"No serious answer has been made to the argument that state pensions will supplant and destroy the existing pension funds for the aged poor. By far the largest of these is that which consists in the performance of natural obligations by children to their parents, and relations to relations. In regard to this everything depends upon 'the feeling that is in the air' about it. Now, it is considered discreditable to abandon relations in old age or trouble. Under the old poor-law the contrary was the case, and experience in the colonies already shows that children are ceasing to support their parents. But besides this there are the scarcely less natural obligations of employer to employed, neighbor to neighbor, and friend to friend. All

¹ Charity Organization Review. August, 1906. p. 108.

² Charity Organization Review. June, 1908. p. 333.

these obligations constitute the repairing force and cement of society, and in displacing them we may be creating a void which the state can never supply. The force of this natural charity is little appreciated by public opinion because it works unseen."¹

Thirdly, because they will tend to weaken the movement toward mutual-benefit societies, cooperation and profit-sharing and other plans now in operation recognizing the tie between employer and employed.

"The recklessness which has involved the country in an expenditure so enormous without in any way suggesting how it is to be met is glaring enough. But the recklessness which has disregarded all the existing thrift organizations among the people, all the work of the friendly societies and trade unions for the care of old age, all the large private schemes established with the same end in view, is even worse. The government has light-heartedly established a state rival to these institutions who will do 'free, gratis, and for nothing' what the people have been steadily learning to do for themselves. The sanguine belief cherished by many that the thrift organizations will still flourish as strongly as ever, both to supplement the state dole and also to provide for the other vicissitudes of life, is assuredly doomed to disappointment. For the state has now been presented to the people as a tap whence supplies can be drawn at will if only sufficient pressure is exerted. The idea that its assistance can be limited to old age is one that the brief experience of the Australian colonies has already proved to be baseless."²

"Pension societies will, of course, reconsider their position and it is the universal experience that voluntary funds tend to disappear when their object is undertaken by the state. . . Further, it is well-known that in many of the recent trust-deeds executed by large industrial firms and companies for the establishment of pension funds for their workmen, a clause has been inserted absolving the employers from further contribution if and when they are called on to contribute to the same purpose through the rates and taxes. All this money and much more will be diverted into other channels."³

"But, apart from this the facilities for providing against old age are increasing daily. Friendly societies, trade unions, great trading corporations are all working out the problem. It

¹ Charity Organization Review. May, 1907. p. 245.

² Charity Organization Review. September, 1908. p. 144.

³ Charity Organization Review. June, 1908. p. 332.

is submitted that this is at least an inopportune moment to run the risk of arresting the efforts that working men are making in the direction of self-dependence. A step toward old age pensions once made is irretrievable. If we once accept the position that old age dependence is inevitable, we make it inevitable. It is clear, if we do so, we do it at a time when more people than ever before do actually provide for old age."¹

Further it is believed that it would be a mistake to assume that old age pensions would empty workhouses, or that through them, the general amount expended in recognized public relief would be substantially lessened.

"With regard to the workhouses, numerous experiments have been made of late years with the object of sending out old people to live upon outdoor relief. They have uniformly failed because the old people have not wished, or have not been able, to live outside."²

"With regard to old people in the workhouse, they are either without near relations, or have good reasons to distrust them, or they are invalids, requiring an amount of attention which they could not receive elsewhere, while a considerable number are of such habits that they could not safely live alone."³

After taking a sort of census among a number of typical unions to learn how many of the old people could live outside with relatives or other responsible persons if given a pension of 5s. a week (the maximum amount under the present act), Miss Edith Sellers writes:

"Among all these twenty-two hundred old men and women whom I came across in the course of my inquiry, I could find only twenty-three—and I sought very diligently—of whom I could feel even fairly sure that, were they to have 5s. a week each, they would be able to leave the workhouse and live with their own people. Only twenty-three out of twenty-two hundred, practically 1 per cent."⁴

The effect upon wages is also taken into consideration.

"The next point to be observed is that old age pensions, like every other form of relief, must act in supplementation of wages.

¹ Old Age Pensions: a collection of short papers. Macmillan & Co. London. 1903.

² Charity Organization Review. May, 1907. p. 249.

³ Miss M. Loane. Spectator. May 30, 1908.

⁴ Old Age Pensions and the "Belongingless" Poor: a Workhouse Census. Contemporary Review. February, 1908.

"It is impossible to divide the life of any human being into water-tight compartments of under sixty-five and over sixty-five, or whatever the age limit fixed for the moment may be. If a man is relieved from the necessity of providing for his old age, he will inevitably in the long run be forced to take lower wages during his working life.

"It is submitted that the true course of progress lies rather in the direction of the increase of the payment of labor than in the condonation by the state of inadequate wages."¹

Many considerations are not touched upon here, among them:

1. The evidence of the need of old age pensions, which is thought by many to be insufficient.
2. The heavy burden of added taxation which they will entail.
3. The difficulty and expense of identification of applicants, and of discrimination among them according to the provisions of the act.

These and other considerations are put aside, not because they are unimportant, but because they belong to the material side of the question, and should be taken up in connection with an authoritative presentation of facts.

The human side of the question is even more important, and it is this human side which the writers of the foregoing passage have had most at heart, and which is expressed in this final quotation:

"There are two ways of considering want. One way is to regard want as a kind of deficit that can be filled up by relief. The other way is to consider it as a condition due to different causes, and varying in kind and extent according to the circumstances and character of the individual. Those who believe want to be a kind of deficit to be filled up by relief reckon that everybody wants on an average the same amount, and they ask the state to make it good—usually by 5s. a week all round or by a sum that will bring the income of the recipient up to that amount. Those who hold the other view say that they know that there is in the hands of the people a constantly increasing sum, the fruit of their own exertions, to meet the wants of old age like other wants, and that to give relief in large quantities is to stifle exertion, just in proportion as the relief is large and widely

¹ Old Age Pensions; a collection of short papers. Macmillan & Co. London. 1903. p. 16.

distributed. They say, therefore, that it is best for the community to treat all its members, as far as possible, as men and women, growing and improving members of a developing community, not as paupers,—dependent people who have reached the limit of their powers, and whose labor must be supplemented by large grants of state relief."¹

PROBLEM OF POVERTY AND PENSIONS IN OLD AGE²

As Professor W. G. Sumner has well said, it is not sympathy with suffering that is needed, but sympathy with hard struggling, but, unhappily, most of the kindly thought of the world is wasted upon those who least deserve it. When we consider that any scheme, or plan, of universal old-age pensions, or even of pensions limited to the deserving poor, must of necessity be paid out of the general revenue raised by taxation, the financial question itself assumes very serious proportions, even in a country as wealthy as ours. If, because of ill-arranged social conditions, burdens fall upon those least able to bear them, the remedy would seem to lie in a different direction from that of old-age pensions granted by the state. If, because of sickness resulting from industrial employment, large numbers of wage-earners are wholly, or in part, a public burden, the more effective remedy will be found in a modified employers' liability law, and not in the direction of a state pension scheme. Those who fondly believe that the latter would remedy the ills which now surround the poor in their old age, would find in their disappointment that they had neither eliminated the poorhouse, on the one hand, nor the pauper's grave, on the other. Before any such action is taken there is imperative need in a free democracy that the subject shall be carefully considered in all its phases, impartially, with as painstaking a consideration of those who work and save and live useful lives, as of those who live an existence opposed to the best interests of society.

The state should only as a last resort attempt to do that

¹ Old Age Pensions: a collection of short papers. Macmillan & Co. London. 1903. p. 18.

² From article by Frederick L. Hoffman, Statistician of Prudential Insurance Company. American Journal of Sociology. 14:182-96. September, 1908.

which can possibly be done by private agencies, or by individual forethought and forbearance and nothing should be done which is likely to discourage voluntary thrift in whatever direction that thrift may be exercised. It was brought out in the evidence before the Royal Commission on Old-Age Pensions of the Commonwealth of Australia that "The amounts voted for charities by the governments of New South Wales and Victoria, where old-age pension acts are in existence, have not been appreciably reduced in consequence of the passing of those acts. It is stated by witnesses that *the acts have provided almost entirely for a different class of persons.*" The same report points out that "It has been shown that in numerous cases the granting of pensions, with the consequent removal of inmates from asylums (or almshouses), has been exceedingly harmful in that many of them have drifted into most undesirable quarters and suffered neglect and privation." The commission, therefore, suggests that, where there are no relatives or friends, pensioners should be boarded out in public institutions, where they would receive the attention necessary in the helplessness of advanced age. In such cases, they recommend that the pension should be paid to the institutions in behalf of the pensioners. This, in other words, is a straightforward admission that the system of state pensions would not do away with the necessity for indoor support in old age, which, under such circumstances, would merely be considered a right instead of a charity, while furthermore, a state pension system would probably not very materially diminish outdoor relief, in that the pensions would chiefly benefit a class which is not now within the scope of poor law administration or private charitable aid.

It is this class, however, which is of the utmost importance from a social and an economic point of view. It is this class which at present, in some way or another, by self-help, manages to avoid the more or less humiliating reliance upon public support. It is this class which has, by voluntary effort, established throughout this country, and elsewhere, voluntary thrift agencies in the form of savings banks, fraternal relief societies, insurance, or other means of providing self-support in old age. To a large extent this class relies upon the help of those who have been helped by them in past years, or, in other words, the old expect to be helped by the young, just as the young have been helped by the old. This is not charity, but mutual aid of the

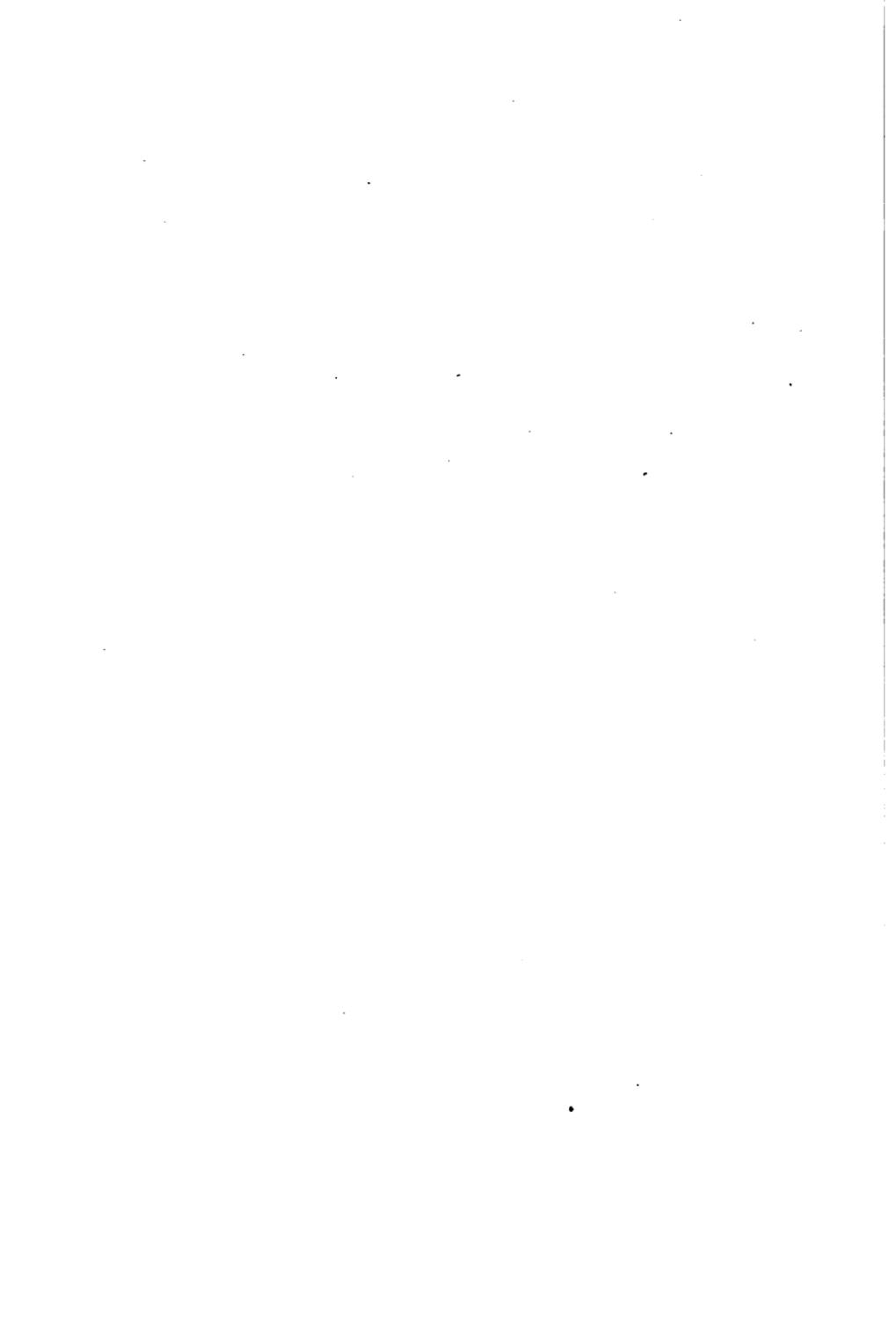
right kind, based upon mutual obligations for service rendered, for which a state system of pensions can never be a substitute. It is this class which forms the backbone of the nation, earning weekly wages not much more than sufficient for the support of the family for the time being, but from which small deductions are made by self-sacrifice and self-denial, which by gradual accumulation, and invested at compound interest, provide a sum more or less sufficient for a modest support in old age. The amount which is thus saved is of almost incredible proportions, but much greater is the amount of self-sacrifice and self-denial necessary to produce it. There is nothing more creditable to the wage-earners as a class than the annual amounts placed in savings banks, or with insurance institutions of various kinds. In addition vast sums are saved and invested, but often with less security and to less advantage than when placed with savings or insurance institutions, specifically designed to meet the needs of those who live on weekly wages.

Already much is being done by wage-earners to provide for support in old age, as is made evident by the aggregation of savings banks deposits and insurance funds. Another evidence is to be found in the ever-increasing amount of industrial and fraternal insurance, both of which aid materially in the struggle for economic independence and by degrees educate the masses in the principle of systematic savings and insurance on other plans. Much remains to be done toward the better education of the masses in sound principles of savings, investment, and insurance. Immense sums are now wasted in foolish expenditures which ought to be saved to provide for the future, while other and perhaps equally great sums are saved, but foolishly invested and lost. At the prevailing rate of wages it is possible for the masses of our wage-earners to provide the support necessary in their old age, at their own cost and in their own way, granted that they use judgment in their family expenditures, save with intelligence, and place the money where it has a reasonable security of not being lost or stolen.

I hold that the agitation for state pensions in the United States is ill advised, in that the problem of poverty in old age, as generally met with, is primarily the result of ill-spent years, or ill-spent earnings, or ill-spent savings. What is needed most is rational education in household economics. Poverty is a relative term and its actual extent is much less than generally

assumed. Of real pauperism there is, as yet, very little in this country and the economic condition precludes the growth of a permanent pauper class. The agitation for old-age pensions in truth and in fact has not come from those who would be the beneficiaries under the proposed measures or plans, but rather from those who feel strongly, but reason badly, upon the facts in the case. The vast majority of wage-earners are fully able to provide for their own old age out of savings deducted from present earnings, amply sufficient to meet a reasonable standard of living. It requires no very extended knowledge of the life of the poor to know that among them exists, in spite of poverty, the highest possible ideals of a true family life. As it has been said, "Parents who have done well by their children seldom come to grief in their old age, except by very special misfortune, or unless someone intervenes to weaken the bond." The chief safeguard against poverty and dependence in old age is a thoroughly sound and well-conducted family life, such as prevails in the preponderating majority of American homes. In this truly lies the strength of the people, and not in the money in banks, nor for that matter, in policies of insurance, or in contracts of annuities. All these are means to an end, but at the root of the problem of poverty and old age lies the proper conception of individual responsibility, and this, no doubt, would be weakened and partly destroyed by reliance upon state support in old age. It is one of the most unfortunate tendencies of modern times to misuse the English language and to adopt forms of expression to cloak the insidious character of certain acts and certain traits. In a problem of this kind, it is of the utmost importance that there should be no misunderstanding and it is an imperative duty to use words in their right meaning. Any system of state pensions is charity in another form, in that the funds have been derived from others than those who will benefit by its distribution. The specious argument is sometimes made that the poor have spent their lives in the service of the nation and that in return they are entitled, by right, to adequate support. Wage-earners do not spend their lives for the benefit of the state, but they seek their own ends in their own way and sell their services at a given price. They may be entitled to remedial legislation in the way of more stringent employers' liability acts for industrial diseases and accidents which may incapacitate them for work, or materially shorten their lives, but besides this

there is no duty under which the state, and under which the people, as a whole, are toward the individual, and it is absurd to speak of a right to pension out of funds which have been derived by the forced contributions of those who are most likely not to be the beneficiaries. It is well to keep in mind the fundamental fact, as pointed out years ago by Professor W. G. Sumner, that the man who has not done his duty can never be the equal of the man who has, and the man who has wilfully, or in ignorance, squandered his earnings, should not be treated with superior consideration to the one who has lived his life rightly, saved his money, and provided for the needs of his own old age. It would be far better if the duty in such cases were more emphatically emphasized, and if the consequences of wrong living were permitted to fall upon those who have been a hindrance, rather than a help, to the social progress of the times.



INVALIDITY

DISABILITY BENEFITS IN LIFE INSURANCE POLICIES¹

When we think of disability as related to its cause, we are apt to think first of disability arising from accident. As a matter of fact, however, only about 3 or 4 per cent of a company's disability claims arise from this cause. The two major causes of disability are tuberculosis and insanity or mental infirmity. Probably a third of a company's claims under the disability clause will be tuberculosis claims and about a quarter of the claims will be insanity claims. Paralysis is the third most important cause of disability.

As to tuberculosis, it is evident that there is wide opportunity under the present wording of the disability clause for the practice of companies to differ. The contract requires that disability shall not merely be total but shall be permanent. Obviously it is difficult or impossible to show that tuberculosis will presumably progress to a fatal termination until some time after the condition has arisen. A liberal interpretation of the contract, however, requires that claims should be admitted as soon as the disease has produced incapacity to labor and the insured has given up his work and placed himself in a sanitarium or under treatment designed to arrest its progress.

Another difficult question in the adjustment of claims is the requirement of the contract that the insured shall not merely be permanently and continuously prevented from engaging in his usual and customary occupation but that he must be permanently and continuously prevented from engaging in *any occupation whatsoever* for remuneration or profit. This leads us to a discussion of the general question of what constitutes permanent and total disability within the meaning of the contract.

The Bureau of War Risk Insurance has defined total disability as "any impairment of mind or body which renders it impossible for the disabled soldier to follow continuously any

¹ From article by J. H. Woodward. Casualty Actuarial and Statistical Society of America. Proceedings. 7 : 10-22. November 17, 1920.

substantially gainful occupation. Total disability shall be deemed permanent whenever it is founded on conditions which render it reasonably certain that it will continue throughout the life of the person suffering from it." The Compulsory Health Insurance bill passed by the New York Senate in April, 1919, defined disability as "inability to pursue the usual gainful occupation" of the insured. The German compulsory insurance law defines invalidity as total when the earning power of the insured is reduced to one-third of the normal.

It has been held by the Indiana Court of Appeals (Indiana Life Endowment Co. vs. Read, 54 Indiana App. 450) that if the policy entitled the insured to recover if he becomes totally and permanently disabled from performing any kind of manual labor upon which he depends for a livelihood, the insured can recover if he becomes totally and permanently disabled from following any business by which he might reasonably earn a livelihood. Again, in order that disability may be construed to be total it is not necessary that the insured should be absolutely helpless. Total disability is a relative matter and is held to depend on the peculiar circumstances of each case and on the nature of the occupation and the capabilities of the person injured. The real test is loss of earning power.

An investigation of the causes of permanent total disability indicate that a large majority of them would incapacitate a man from performing the duties of any occupation whatever as well as the duties of his regular occupation. This gives ground for hoping that some way may be found to safely remove the present limitations so as to make the benefits apply to total disability from performing the duties of the insured's regular occupation.

There are several types of cases where disability benefit should be granted with great caution, if at all. We have seen that the principle cause of disability is tuberculosis. Hence the benefit should not be granted at regular rates to underweights at the younger ages unless the family history and other features of the risk are exceptionally good. Mr. R. G. Hunter has recently pointed out that in the case of tubercular family history the disability rate bears "a much higher percentage to the normal disability rate than the mortality rate due to tubercular family history does to the normal mortality rate." Next to tuberculosis, insanity and paralysis are the most frequent causes of disability. It follows that the benefit should not be granted

at standard rates where there is a personal history of mental or nervous disorder or of any lunatic infection or where there is more than one case of insanity or nervous disease in the family history.

Another group to which the benefit should not be granted is unmarried women who are not in receipt of a salary or wages. Where a disability clause is attached to a policy issued to a woman, it should provide that the clause shall be cancelled upon the marriage of the insured. There are doubtless self-supporting married women to whom the benefit might safely be granted, but these are not to be readily distinguished from the others.

INVALIDITY INSURANCE¹

The health insurance bill drawn by the Social Insurance Committee of the American Association for Labor Legislation stops short with what is known as sickness insurance, meaning sickness of reasonably short duration, that is, twenty-six weeks, not because that committee did not believe that invalidity should be taken care of, but because social insurance perhaps may best be introduced by stages, as it always has been. It is quite true that after you have covered a part of it, the thing that it really does is to point out clearly that the other part of it is not covered. It is quite true that when people have been sick twenty-six weeks and are not well, the need of provision for them is more apparent than ever. Invalidity, in other words, is merely prolonged sickness. The committee in the standards, which were adopted before drafting the bill at all, put in provision for invalidity. The question as to whether invalidity was to be covered by the sickness insurance bill itself was repeatedly before the committee, and that was reluctantly abandoned because it did not appear that there was anything like so much education in favor of it, as there was in favor of health insurance itself. I speak advisedly when I say that, should any legislature wish to take up the question of combining invalidity with sickness insurance, we should be very glad to cooperate to prepare amendments to the standard bill, which will make that provision.

¹ By Miles M. Dawson, Consulting Actuary, New York. United States Bureau of Labor Statistics. Bulletin no. 212. p. 729-30. 1917.

This brings me to the relation between invalidity and old age, about which I think it would be proper for me to say a few words. The truth is that people resent being retired if they are really capable of doing their work, merely because they have reached a certain age. I refer particularly to workmen; that is not so true of staff employees, who are, not infrequently, impressed with the fact that the time has come when their services are not worth as much as formerly, and they, having probably saved considerable money, can look forward to a comfortable life upon a pension. But the workmen as a general rule do not wish to quit their work until they have to; in other words, nothing but invalidity forces them to accept the pension. The British Friendly Societies, before there was a law on the subject at all, provided invalidity pensions. Had there not been an old-age pension law in Great Britain before sickness insurance, it is my opinion that there never would have been an old-age pension law; there would simply have been sickness insurance, and whenever a workman became broken down and unable to do his work at any age, whether eighteen or eighty, the invalidity pension would start. Something similar to that could be done here if we desired.

SICKNESS AND INVALIDITY INSURANCE¹

It is quite clear that as an economic problem invalidity is of equal importance with that of sickness, and, as far as the individual cases are concerned, of even greater importance. There can be no question as to the desirability of the insurance method of provision against it. The real problem is whether invalidity for insurance purposes should be merged with sickness, on which it borders on one side, or with old age, on which it borders on the other; or whether, finally, it should be made a matter for distinct treatment.

The predominating method under compulsory sickness-insurance systems is to deal with temporary total disability, and leave invalidity to the old-age insurance systems. That is essentially the German plan, followed by most continental systems. Under this system temporary invalidity may be treated by the sickness-insurance institutions, primarily as far as periods

¹ From article, *Standards of Sickness Insurance*, by I. M. Rubinow. *Journal of Political Economy*. 23 : 221-51. March, 1915.

of recuperation from acute illness are concerned; but outside of that a definite time limit exists beyond which the disabled cannot be cared for by the sickness-insurance carrier.

In Germany, the dividing line between sickness and invalidity is the maximum limit of twenty-six weeks (raised in 1903 from the original thirteen weeks' limit) which individual sickness-insurance funds may increase to a year. The invalidity and old-age insurance system handles both the cases of permanent invalidity and also the cases of sickness extending beyond the normal sickness period. The distinctive feature of the German system is that invalidity is defined as inability to earn more than one-third of the normal amount, and therefore embraces what in the jargon of compensation is known as permanent partial disability.

In Denmark, the system being voluntary, individual associations are permitted to determine the details for themselves; but according to the law, money benefits can be granted only in case of actual sickness and complete disability, not partial disability or invalidity. As a matter of fact, very few insurance funds grant benefits for over thirteen weeks.

In Great Britain, on the other hand, invalidity insurance is joined with sickness into one system, so far as organization and finances are concerned, although the benefits are different. The invalidity benefits are termed "disability benefits" and may be given for life, while sick benefits are payable for twenty-six weeks only. The definition of invalidity is strict and narrow, including only total disability, and is, therefore, more comparable to the benefits given in Germany to cases of sickness extending beyond twenty-six weeks, than to the German invalidity benefits.

With the two great precedents of Germany and Great Britain entirely at variance with each other, the question as to the comparative advantages of the two systems is not an easy one. Actuarially the treatment required by the two systems is not at all similar. As will be explained at greater length presently, when the financial basis is studied, sickness insurance deals mainly with a constant charge. While the rate of sickness increases with age, the rate of increase is not very great, and the average age of any industrial group is not very much subject to change. Since the maximum cost of any one case is limited, substantial reserves are scarcely necessary.

Financially, sickness insurance is elastic; deficits, if any,

develop rapidly and may be rapidly corrected. For this reason the German system can afford to leave the financial problems to the determination of the separate sick funds.

On the other hand, invalidity is largely a result of advancing age. Like old-age insurance, invalidity insurance requires substantial reserve, if a rapid increase in cost of such insurance is to be prevented. Invalidity insurance is therefore a matter for long-term contracts; it is a permanent agreement which must be subject to strict control if the solvency of the insurance-carriers is to be guaranteed. For this reason, invalidity insurance (like old-age insurance) in Germany is carried on by the larger insurance institutes, which are practically state institutions and are all the time under strict government control. To insure a fair balance between income and expenditures a very careful actuarial study of invalidity statistics must precede the preparation of the rates.

When invalidity benefits are combined with sick benefits, as was done in Great Britain, and one rate of contribution is quoted for both, all the actuarial difficulties of invalidity insurance are extended over the entire sickness-insurance system. The solvency of the sickness-insurance carrier may be only apparent, because the funds which should have been accumulated to meet the future increasing charge of invalidity may have been utilized in payment of sick benefits. Nevertheless, if the sickness-insurance system is based upon compulsion to insure with a prescribed carrier, the financial difficulty may not be fatal. So long as the insurance-carrier is sure of its hold on a definite group of insured, it can meet the increased cost by distribution among all of them. The excessive burden may be felt, but cannot be escaped. But the British system unfortunately was based upon the freedom of choice between insurance-carrier, and right of transfer from one carrier to another. Thus the financial problems became doubly complex. With a system of "level premiums," with which the public is familiarized through life insurance (i.e., premiums which should be increasingly larger, but which are recomputed to equal annual amounts, so that in the early years the premiums represent an over payment, and in later years are below the necessary amount, and the reserve accumulated in earlier years is gradually absorbed in the course of years), the entrance of an insured of advanced age would represent a loss to the insurance-carrier, unless the reserve value at his age is

paid. The British system, therefore, required a very complex system of bookkeeping with reserve values for each age, and cross-entries between different funds for every case of transfer from one fund to another. This again required the centralization of all funds in government institutions. Thus many difficulties of accounting and actuarial practice were created, which were increased by the very uncertainty of actuarial data upon which all computations were made. A large share of the criticism of the British system emanates from these difficulties, while the German system dealing with sickness only has the advantage of simplicity and freedom from actuarial complications.

An explanation of the differences between the German and British methods may be found in the different provision made by the two countries for old age. Germany with its system of compulsory old-age insurance could very readily extend the activity of its insurance institute to cover invalidity as well. The British National Insurance Act found Great Britain already in possession of a system of non-contributory old-age pensions. Public opinion would not have countenanced the addition of non-contributory invalidity pensions (although there would have been a precedent for it in the French old-age pension act of 1907, which includes invalidity), and a separate organization for invalidity probably appeared too complex. A practical way out of the dilemma appeared in the combination (rather unusual in the history of social insurance) between sickness and invalidity insurance.

In this country the field is open for either method; we have neither compulsory old-age insurance nor non-contributory old-age pensions, nor has either of these two methods as yet entered the domain of practical politics. Both methods have already received the support of some theoretical propaganda; so far as popular support is concerned, the advantage seems to be on the side of non-contributory pensions, which have achieved considerable popularity among organized labor. Some preferences either for or against inclusion of invalidity may come as a result of partisanship in favor of either of these two plans. Adherents of non-contributory old-age pensions may prefer to see the problem of invalidity settled in connection with sickness insurance, with the hope of thus facilitating a system of non-contributory old-age pensions.

It should not be assumed, however, that these two problems

stand to each other in the relation indicated. The question of comparative advantages of non-contributory pensions and compulsory insurance for the purpose of old-age relief may be decided on its own merits in due time. The present task of carrying through a system of sickness insurance will be very much simplified if it be kept separate from that of invalidity insurance.

UNEMPLOYMENT INSURANCE GENERAL DISCUSSION

EVOLUTION OF INSURANCE AGAINST UNEMPLOYMENT¹

The four principal types of unemployment insurance may be generally described as (1) unassisted trade insurance; (2) provided voluntary insurance; (3) subsidized autonomous insurance and (4) compulsory state insurance. These types are described below.

1. Trade unions which first attempted to solve the unemployment problem, had the advantage of being in close touch with their insured members, among whom the incidence of risk was evenly distributed. But as the whole cost of the scheme is laid on the wage-earners and no provision is made for the large class of unorganized casual laborers outside the unions, this plan has proved during thirty years' practice to be burdensome and limited in operation.

2. Unemployment insurance was next provided, about twenty-five years ago, by the public or semi-public authorities, most of them municipal, in certain cities in Switzerland, Germany and Italy. These schemes were found in practice to be merely modified forms of public relief for the few unemployed who had previously contributed to the unemployment fund, the bulk of the fund, however, being contributed in the form of charity, by individuals or by the municipality. The schemes tend to become refugees for bad risks, and are therefore costly, and require large subsidies, which ultimately tend to fall entirely on the municipality.

3. The next experiment was the "Ghent" plan of 1900, by which public bodies came to the assistance of the trade unions in their voluntary insurance schemes described in paragraph (1). This plan was widely adopted throughout Europe, aid being granted by municipalities in many cities in Belgium, Finland, France,

¹ Personnel. 2 : 5, 8 November, 1920.

Germany, Holland, Italy and Switzerland; by provinces or departments in some parts of Belgium and France; and by state governments in Belgium, Denmark, Finland, France, Great Britain, Holland, Norway and Spain. The Ghent system had a marked degree of success, especially as carried out in Denmark, where in 1914 about 60 per cent of the workmen, of every type of employment, including a large number of unskilled workers, were thus protected against the risk of unemployment. The advantages of the Ghent system have been stated to be as follows: That use is made of existing organizations; that control is preserved over the accumulation of "bad risks"; that by means of mutual control the genuineness of unemployment is guaranteed; the expenses of administration are lower than under purely state or civic management; actuarial difficulties are avoided, since the rates of contribution and benefits are determined by the several associations, which are in immediate contact with the workers concerned; that friendly relations between the authorities and the workers are encouraged; that the organization and self-control of workers is a good disciplinary influence. On the other hand the defect of the Ghent system is stated to be that whereas the unorganized worker stands most in need of assistance, it is only the organized worker who benefits under the plan. This objection is met in theory by supposition that unorganized workers would tend to form themselves into insurance societies in order to enjoy the benefits of the scheme; but in practice it is found that the only class benefitting by the Ghent system of insurance is that of organized trade unionists, and therefore, except in Denmark, no benefit has been conferred upon unskilled workers.

4. The first experiment with compulsory state unemployment insurance was made at St. Gall in Switzerland in 1894. Under this measure workers were required to contribute to the insurance fund which was supplemented by voluntary donations and municipal appropriations, but employers were exempt from contributions. The workers who drew practically no benefits were hostile to the scheme, which in the minds of the people came to be associated with charitable relief. After about two years of operations the scheme was abandoned. Other similar schemes were proposed in Zurich and Basel, but were not adopted, and it was not until 1911, when the British National Insurance Act became law, that the principle of compulsory

insurance against unemployment was carried into effect. Part 2 of the British National Insurance Act provided for (a) compulsory insurance in certain trades, known as "insured trades"; and (b) encouragement of voluntary insurance through subsidies to associations and workers. Amendments to Part 2 of the Act were passed in 1914, when certain administrative changes were introduced, and also in 1915, 1916 and 1918, when new trades were introduced and special provisions were made for conditions arising out of the war. The "insured trades" covered by section (a) of the Act of 1911 were the engineering, shipbuilding, building and constructional industries, these being the trades most subject to fluctuations in regard to employment. Contributions of $2\frac{1}{2}$ d. a week each were required from employer and workman. The state added a subsidy equal to a third of the joint contribution of the employer and workman, a further grant being offered to any trade union providing voluntary unemployment benefit. The rate of benefit was 7s. a week for not more than fifteen weeks in any one year, workers being permitted to draw their benefit from their union, which was recouped in bulk by the state. In 1919 the rate of benefit was raised to 11s. a week on a report from the Government Actuary that the risk of unemployment had been overvalued. During the period of demobilization special grants were made in regard to unemployment and to discharged soldiers and sailors. But these grants having been exhausted, the government early in the present year brought forward a new Unemployment Insurance Bill, designed to make permanent provision for unemployment. This bill has since passed into law, and the new act is described in a separate article entitled "The British Unemployment Insurance Act Became Effective on November 8th," found on p. 8 of this issue.

No other country followed the example set by the British National Insurance Act of 1911, until March, 1918, when the Russian soviet government brought into operation a law establishing a system of compulsory insurance against unemployment. The Russian law differed from that of Great Britain, in that the workers are not required to contribute, the burden of contributions resting entirely on the employers, who are required to pay 4 per cent of their total wages bill, or 5 per cent for seasonal workers. Workers out of employment no less than four days, receive benefits to an amount equal to four-fifths of

their previous wages, but not more than the average customary wage paid in the industry in which they were employed.

In Switzerland a scheme of compulsory insurance, which came into force in 1919 as a temporary measure, pending the enactment of a permanent law, provides relief amounting to 60 per cent of normal earnings (70 per cent for those with dependents), the cost of such relief being covered partly by grants from the Federal Government, the cantons and communes, and partly by contributions levied upon the employers.

In Queensland, Australia, an Unemployed Workers Bill was introduced in the Legislative Assembly in September, 1919, providing for compulsory insurance against unemployment. The most notable feature of this bill is that the workers are not required to contribute to the fund from which unemployment benefits are drawn, the expenses being defrayed by an assessment levied upon employers, amounting to £2 per annum for each worker for the year 1919, and for subsequent years as determined by the Minister responsible. The amount of weekly benefits range according to districts from 17s. 6d. to 22s. 6d. for single male or female workers, and from 25s. to 35s. for workers with dependents, with an additional 4s. to 5s. for each child of a married worker, widower or widow, under 16 years of age living with and dependent on the worker.

Compulsory unemployment insurance has been discussed in Germany, but apart from an out-of-work donation scheme to meet post-war conditions no national scheme has so far been adopted.

New Laws in Italy and Austria

In Italy and Austria, unemployment insurance laws have recently been enacted which are similar in many respects to the New British Unemployment Act described elsewhere in this issue.

In Italy a law was passed at the end of 1919, bringing compulsory insurance against unemployment into force during the present year. Under the new law the grants hitherto made to unemployed workers are abolished, and the scope of the central and provincial employment offices is extended to include the administration of a new insurance fund to cover unemployment risk. Each provincial committee is composed of three employers' and three employees' representatives (supported by two "under-

"studies" in each class), with a magistrate acting as chairman. Its duties are, to superintend subordinate insurance and employment offices, and to transfer surplus labour to other fields.

In Austria, the special unemployment insurance act in force during the period of demobilization was superseded, on March 24, 1920, by a new act designated to cope with a normal volume of unemployment. The new act created an insurance fund to which the state contributed one-third. The remainder is collected from the employers and employees along with sickness insurance contributions.

In order to benefit from the fund, workers must have been employed for at least 20 weeks in the preceding year. Those who gave up their work arbitrarily and without good reason, forfeit their claim to benefit for four weeks. A worker who has been in receipt of benefit for eight weeks without prospect of obtaining employment at his own trade, must accept employment in some occupation suited to his capacities, the necessary training being provided.

STEADY WORK—THE FIRST STEP IN SOUND INDUSTRIAL RELATIONS¹

The most demoralizing of industrial poisons is the poison of fear—and the fear of joblessness pervades the work-relation.

All that Professor Cannon of the Harvard Medical School has taught us about the striking bodily reactions of strong emotions such as worry, anger and fear, we can without violence to language translate into industrial terms, and visualize some effects and consequences taking place in a field where human nature and its attitude are so decisive—the field of industrial relations.

No one who is alive to the economic importance of industrial good-will can be indifferent to the havoc from unsteady employment on industrial morale, efficiency, and organization itself.

Irregular work means irregular manhood, and irregular industrial loyalties. No program for output, no progressive organization, is possible against the undertow of intermittent work.

¹ By Meyer Bloomfield, editor *Industrial Relations: Bloomfield's Labor Digest*, Boston. *American Labor Legislation Review*. 11 : 38-40. March, 1921.

Picture what a recurrence of bank failures would do to our credit system! As in finance, mutual confidence is the bedrock of industrial relations, indeed of production itself, and nothing tends to shatter this system of mutual confidence so surely as recurring work-failures.

Regarded from any standpoint the situation is too wasteful to be tolerated. Industrial relations can no more prosper where work is spasmodic than can industrial habits in a country afflicted with crop failure and famine. Reasonable security of employment is the first step in any genuine industrial relations program. It conditions everything that follows. It is the mother of industrial morale. Joblessness is next to godlessness.

There is worldwide unemployment today, and it is rather too naive a view of industry to believe that any set of men, or industrial captains are responsible for it.

Lack of orders, lack of credit, and lack of raw material are truer explanations of what is now taking place. Every employer is desperately trying to resume. The problem is too complicated for any simple generalization, or for simple remedy.

One way to attack it, the problem of irregular work, is to resolve the component parts of the problem, each of which suggests a different, not a universal kind of treatment. It is not possible to work miracles, but much can be done by caring enough about the situation to be willing to undertake such experiments as promise something worth while.

A general plan of unemployment insurance in this country will require as a preliminary a widespread chain of labor exchanges, something we are not likely to see immediately. In Great Britain there are sixteen hundred such exchanges tied up with the new unemployment insurance scheme. Moreover we shall have to see a more lively sense of tenure as regards the job than is now manifest in the thinking of the average American employer or employee. A large proportion of labor turnover is self-determined.

It is likely that the best results from insurance will come from individual initiative, in a plant, or in a group of plants. The insurance idea is valuable in that through this method we can for the first time estimate the exact nature of the risks we have to deal with. The effect of any sound insurance plan is to reduce the need for it. Accident compensation laws are the best promoters of safety measures; mutual fire insurance accelerates

fire prevention measures. In the sense that insurance implies penalties and burdens proportioned to preventable causes of expense, it is a prime economic benefit.

As regards irregular work, insurance is a method practically of averaging earnings over dull periods. Without waiting for legislation, both employers and employees have it in their hands to devise between them, in the individual establishment, some method of effecting this averaging. It should be laid down as a principle, and this is the most telling contribution that the employee can make to encourage out-of-work insurance, that the employer or the industry which sets up such insurance shall receive favored treatment in the way of productivity and profitable operation.

We cannot leave out of our account, in considering immediate steps, the part of the consumer, and more especially the consuming population represented by the wage-earners and their families in securing regularization of employment. The concerted buying power of the consumers awakened to the consequence of peak demands followed by business stagnation will do much, if it ever gets into action, to stabilize employment, in some industries at least. Labor has been at fault in not taking the initiative in appealing to the conscience of the consumer, in not setting up a kind of buying calendar for the multitude who would respond as they have to the Christmas Shop Early appeal. An unmoved, irresponsible, uninformed, and therefore conscienceless consuming public including the very victims of the conditions, is busily manufacturing unemployment and overtime in alternating spasms.

SEASONALITY AND INSURANCE¹

As insurance against unemployment has been advocated largely with a view to seasonal unemployment, we shall consider its possibilities now, though it must be borne in mind that the unemployment caused by cyclical trade depression is not outside its scope. In these days when we insure against most of the accidents of life—death, sickness and disablement, bad debts, fire and shipwreck, variations in prices (by "futures" and

¹ From Sydney John Chapman and H. M. Hallsworth. *Unemployment*. p. 105-14. University Press. Manchester, England. 1919.

"options"), burglary, damage to valuables, and destruction of crops—it is only to be expected that insurance should be thought of as a possible means of mitigating the distress occasioned by the accident of unemployment. Indeed, insurance of a variety of kinds has actually been tried. But it has frequently been urged against it that unemployment is not an insurable risk. The two main grounds for this contention are—the one that the payment of benefits to those out of work operates as an appreciable inducement to half-heartedness in seeking and keeping work; the other that, the risk of unemployment not being distributed according to the law of error, a simple system of premiums would not impose substantially equitable burdens. The first objection seems to us the least weighty and by no means fatal if the benefits are not high, and particularly if an efficient national system of labor exchanges is in operation, in some manner of association with which the insurance scheme could be administered. Arrangements would, of course, have to be made limiting the duration of benefits in proportion to premiums paid. Trade unions, particularly those of the United Kingdom, have been most successful in insuring their members against unemployment. The cost in this country, apart from administration expenses, ranges up to about 7d. a week. It must be realised, however, that the trade unions are in an exceptionally advantageous position for performing such a function. They operate as employment agencies, and insist on their members accepting suitable work and proving themselves reasonably capable of keeping their places. All will agree upon the enormous importance of extending insurance upon the basis of labour organisations.

The second objection to public insurance against unemployment, namely, that the risk of unemployment is not sporadically dispersed, is more serious. The risk of unemployment varies with (1) the trade, (2) the efficiency of the individual, and (3) such moral qualities in the individual as industry and tractability. It will be apparent from our previous chapters how enormous are the discrepancies between the risks of unemployment in different trades; we may cite in particular the very heavy cyclical risks in ship-building and seasonal risks in coal-mining. In some industries, again, slackness of work is spread over the bulk of the labour in the trade in the form of short time, whereas in others it shows itself mainly in dismissal of

hands. This divergence in the form of unemployment might necessitate arrangements under which small benefits would be paid to those whose work was reduced by a percentage above a certain amount, and the benefits would rise as the duration of employment fell, until they reached the maximum when unemployment was complete. Perhaps it would not be impossible to group premiums by trades according to their unemployment risks, but there would still remain the discrepancies between the risks of individuals consequent upon differences in employability. Were a voluntary system of insurance adopted it is probable that the more responsible, adaptable, industrious, and obliging hands would discover at some time, if they did not realise at once, that their premiums were in excess of their benefits, and would in consequence leave insurance severely alone. Premiums for the remainder would then, no doubt, be found prohibitive. Our examination of the quality of labour seeking assistance at labour exchanges and offices for registering for relief work leads us to suppose that this objection is far from being negligible. The least efficient need the insurance most, and they are least capable of bearing the cost, which would be high for their cases separated from the rest. It is a general principle in business, of course, to dismiss first the hands of the lowest value. The problem would be simplified if a hard-and-fast line could be drawn between the employable and the unemployable, but it cannot. What we have to deal with is a population the economic value of the members of which ranges from something in the neighborhood of zero to a large amount. One way out of the difficulty would be to subsidise the insurance, premiums being calculated on the risks of the average workman in each trade. This would mean, in effect, payment by the public of a portion of the premiums of those below the average. In view of the nature of many of these, however, and of the fact that many of them are frequently out of work for a long time and that idleness is demoralising, it would seem more desirable to provide them with work and wages than with benefits merely.

In some degree, it may be urged, trade union unemployed insurance is subject to the flaws pointed out above. This is true, but whether a flaw is fatal or not depends upon its magnitude and the means available for counteracting it. No system of any kind in the world is free from imperfection. The trade

unions see to it that workmen on the verge of unemployment struggle to get a little higher up in the scale of employability, and that no person draws an abnormal amount of out-of-work pay. Through their members they watch and influence their members, and thus their system is to some extent an individualising one. Such helpful individualised action is beyond the powers of a public body or insurance company. Again, the payment of unemployed benefit is regarded by the trade unions as an essential element in the policy directed to maintaining a standard rate. If it were not paid at times when the rate would naturally fall, those out of work by competing with those in work would bring the rate down.

The comparative triumphs of certain trade unions in insuring their members against unemployment induced the municipal authorities at Ghent to try the experiment of subsidising such trade union insurance in 1901. By last winter every town in Belgium with a population of more than forty thousand, and some provinces, had followed suit, and the Ghent scheme is now being tried experimentally with certain modifications in other Continental countries. One must not imagine from this that an extensive and costly system of subsidising insurance against unemployment is already in operation on the Continent; on the contrary the aggregate financial burden involved is still small. We must not ignore the possibility that under this scheme the public might be taxed to support an attempt by a trade union to maintain a certain standard wage which the state of the trade did not warrant. Its widespread adoption, however, would seem to be an indication that on the whole its merits must have been considerable. Side by side with the assistance of trade unionists some plan for extending similar aid to non-unionists is obviously desirable and has frequently had to be adopted. Frequently it takes the form of subsidising their withdrawals from savings when they are out of work, it being understood that no person receiving a subsidy may, under certain safeguards, refuse suitable work. Certainly the plan of subsidising individual saving against want of work, the extent of saving being left to the individual, does evade the difficulty involved in an attempt to classify the risks of different classes of the community and calculate equitable premiums against them. An obvious imperfection in supplementary schemes of this nature, however, is that they do not rest on an insurance basis.

The cost of the non-unionist unemployment is not spread over the whole trade. Consequently subsidies must be relatively enormous in some cases or the provision for temporary non-earners must be frequently inadequate. Whatever good points the Ghent plan has, it still leaves the bulk of the distress due to bad trade or seasonal collapses of demand untouched, in so far as the device for assisting non-unionists is on a voluntary basis. Trade unions do not nearly include the whole of the wage-earning population. The mass of those whose sufferings are the most acute are not in trade unions and do not save appreciably, if at all.

We have been asked what would happen if a trade which insured itself against unemployment rapidly contracted. Trades must now and then decline absolutely, and when they do the percentage of unemployment must become abnormal. We may observe, however, that most rates of decline that are likely in any trade can be adequately met by a shrinkage of the entries into the trade. It would seem that the rate at which an industry would shrink by retirement or death of its members, were the avenues to it entirely closed, could not normally be much less than 2 per cent in the first year. This rate would, of course, rise with increasing rapidity from year to year, since the age-distribution of those left in the trade would become increasingly weighted with the greater ages. It would seem, then, that "nature" in competitive economic arrangements has provided an automatic self-protective function against rapid industrial changes. Were this natural rate of decline exceeded the burden on the insurance funds against unemployment would become serious. We can only suggest that a reserve should be held against such an eventuality; and, if feasible, that a pooled reserve for several labor organizations should be formed, as this would be the most economical system of making provision. Just as some federations of trade unions have held funds for use only in strikes of exceptional severity, so they might hold funds relating to friendly benefit against exceptional cases like the one supposed.

Though we are greatly impressed by the necessity of a further extension of insurance against unemployment by labour organisations, our study of the facts of unemployment has driven us to the conviction that no solution of the problem can be approximately complete for this generation, and afford help

of the right kind to those who need it most, which does not include the provision of work under certain conditions which will be defined in a later chapter. Weekly allowances will not appreciably prevent the demoralisation of hopelessness at present engendered by months of idleness.

AFFIRMATIVE DISCUSSION

UNEMPLOYMENT INSURANCE¹

I know, you know, everybody knows, that even in our own fortunate land which is not afflicted by war, or pestilence, where the most fertile soil produces perennially in rich abundance, there are today thousands, yes millions, who can only get scanty and unpalatable food, who can only secure the poorest and coarsest clothing, who in sickness must go without physician's and nurse's care. There are many, many more who have a fair measure of these necessities, yet live barren lives without books, or music or opportunity of recreation or travel and innumerable other things which make life pleasant. This infinite number of legitimate but unfulfilled wishes and needs, proves that it is only by reason of serious defects in our present industrial and social organization, that anyone willing to work to supply these needs, is unemployed.

Subsidiary causes of involuntary unemployment are lack of knowledge of the worker where work is; lack of means whereby the worker can transfer himself cheaply and rapidly from one job to another; seasonal occupations; the temporary displacement of workers by new machinery; lack of adaptability to new work on account of old age or mental or physical weakness; lack of industrial training, either in youth or adult life; over-specialization which confines the chances of employment to small subdivisions and particular operations of industry; and irregular buying habits of consumers. All of these causes of unemployment are absolutely beyond the control of the individual worker and can only be regulated by collective action.

The effect of unemployment and the resulting lack of proper food, etc., upon workers does not require any extended description or explanation, least of all to physiologists. The human organism, unfortunately, is not like a steam engine in which the fires can be extinguished and then allowed to stand cold

¹ From address by Rufus M. Potts, Insurance Superintendent, State of Illinois. In Addresses and Papers. p. 98-112. Springfield, Illinois. 1917.

without expense until put to work again. The human mechanism requires continuous supplies of fuel in the form of food, as well as clothing, and other necessaries. If it once stops and grows cold, the most expert physician in the world cannot start it again. Unemployment inevitably causes suffering and deterioration, and is always followed by an increase in pauperism and crime, and so is direct economic loss. In those cases where the worker has been able to accumulate some money in a savings bank, by investment in a home, or otherwise, as long as such resource holds out neither he nor his family will endure physical sufferings. But there is a great number who have no such accumulations, and such as do have them, must exhaust them sooner or later, so that poverty and hunger are certain unless some means of prevention or relief can be found.

For dealing with such unemployment as remains after a faithful application of such preventive measures as I have described, instead of charity the most effective way is by insurance methods. I suppose there is not a person here who does not have some understanding of the theory of insurance, so I will only need to say that insurance in general is a legitimate and well tested business method which, by collecting contributions from each one of a large number of individuals, liable to suffer loss from uncertain occurrences, creates a fund, out of which the losses to such of those individuals to whom the contingency occurs will be paid, and in this way distributes throughout the whole number insured the burden to the few unfortunates actually suffering loss.

Extreme individualists take exception to the compulsory features which are necessary to make a success of any branch of welfare insurance, but above all, are necessary in unemployment insurance. It is absolutely useless to expect that any form of unemployment insurance will be taken advantage of or benefit a large part of the classes most needing it, unless it is made compulsory in character.

Dr S. S. Huebner, professor of Insurance and Commerce in the University of Pennsylvania, and one of the leading authorities on insurance in the United States at the present time, in a recent address states that insurance protection for wage-earners cannot be left to voluntary action either by commercial companies or by the government.

The present voluntary state life insurance plans of Mass-

achusetts and Wisconsin, although sound in principle and safe financially and carried on at cost, have made practically no headway. The reasons for compulsory welfare insurance are the same as those for compulsory education, compulsory sanitary measures, compulsory food inspection and compulsory fire precautions, and are no more an unwarranted interference with the liberty of a citizen than are these and other compulsions to which every good citizen willingly submits because they are for the benefit of the whole community, including himself.

As the density of population and complexity of civilization increases, certain limitations of liberty of action become absolutely necessary under even the freest and most democratic form of government that can be devised. Under even the most attractive and secure plan of voluntary unemployment insurance, and also of other branches of welfare insurance, that could be devised, there would be a large proportion of thoughtless spendthrifts who would fail to take advantage of it to make provision for themselves, or their families. There should be no reluctance for the state to apply compulsion to those so wanting in foresight and sense of parental responsibility as not to make provision for themselves and families, and such a course would not, I believe, offend the strong individualistic characteristics of the people of the United States when once the true purpose and immense advantages of welfare insurance are understood by them.

Against these and possibly other disadvantages of unemployment insurance there are many benefits which, I believe, under a properly planned and safeguarded system, far outweigh the disadvantages. The first and greatest of these is, that it prevents undeserved suffering and destitution. There is nothing which should more strongly engage our sympathies than the spectacle of a man who is able and honestly willing to work, to get the means to support himself and his family, but who is not able to find such work. There is no situation which causes more undeserved, helpless suffering. A system of unemployment insurance, even though accompanied by difficulties which can prevent or even measurably mitigate this misery, is worthy of careful trial.

Another benefit is that unemployment insurance by furnishing support, when none is otherwise available, will preserve the physical health and the moral character of the worker. Good

physical health and efficiency can only be maintained by a regular and adequate supply of food, clothing and proper shelter. Men and their families must have something to eat every day; they must have clothes to wear; they must have shelter and warmth, and if unable to gain these through their own exertion, some will be driven to crime; others will become the unwilling recipients of charity. Charity in the proper cases, and occasionally, is perhaps a blessing both to the giver and to the receiver, but if long continued, as it would have to be to support all the unemployed under modern industrial conditions, would become an insupportable burden to givers, and as I have already maintained, a source of degradation and pauperization to the recipient. Human nature being what it is, it is unfortunately true that there is a certain proportion of men and women, who when they find that charitable relief will be always forthcoming, and become accustomed to receive the same, entirely lose the motive to work and practically cease to work, depending on public or private charity.

The hunger motive is the only one that will drive a great many men to work, and if this is eliminated by undiscriminating charity, such men will cease to work at all, and become able-bodied unemployables. Fortunately, as civilization and education advance, a constantly increasing proportion of mankind become amenable to other and higher motives than hunger, but there is still, and will be for a long time, those who will, whenever possible, gain a living by begging or stealing, instead of working, even when abundant work is offered. For this class our scorn and contempt can hardly be too great, and all social plans should take into account this class, and include measures which will compel them to work to support their useless existence instead of allowing them to longer beg or steal, much less furnish them with a pension through unemployment or other welfare insurance paid for by forced contributions from the labor of willing workers.

The effect of unemployment insurance money received by the worker is entirely different from charitable relief. Because he has contributed directly or indirectly to create the fund from which he is paid, there is no loss of self-respect.

Another benefit of unemployment insurance is that it will mitigate industrial crises by maintaining the consuming power

of the worker. May I be permitted to say in passing, that I believe that the Federal reserve currency plan now in force has already proven, and will prove in the future, to be an exceedingly important factor in preventing, or at least diminishing, commercial crises, commonly called "hard times." Owing to their immensely greater numbers, the working classes consume by far the greater part of the products of all the industries, and when this consuming capacity is diminished by the unemployment of any considerable part of the laboring classes, by an industrial crisis, such crisis is thereby aggravated. If only purchasing power for the necessities of life, such as food and fuel, were maintained, it would go a long way to lessen all industrial crises, although, of course, we all recognize that there are many other contributory factors which must be eliminated before their recurrence can be completely prevented.

Unemployment insurance would also operate as a direct preventive of unemployment, because it would be a direct financial inducement to the employer to furnish regular work. In the English unemployment insurance system there is provision made for a marked reduction of the amount of contribution required from the employer if he furnishes regular employment to his workmen throughout the year, and this reward should be a part of every unemployment insurance system. The preventive effect of unemployment insurance will be comparable to that in favor of accident prevention, caused by workmen's compensation insurance.

When we come to consider whether we should choose the voluntary form, or the compulsory form, of unemployment insurance in the United States, we find that practically nothing has been done in unemployment insurance by voluntary methods, excepting through the labor unions. This is a very important and beneficial branch of their work, but it, of course, is impossible for them to aid those outside their membership, and this membership is only a small per cent of all workers. So far as I know there is no hope in any quarter that, outside of labor unions, unemployment insurance would or could be made successful on the voluntary plan. The only alternative is compulsory unemployment insurance. If this is adopted, it must be carried on by the state or United States, for two reasons. First, in order to avoid the excessive and unreasonable expense of all

insurance by commercial methods, and in the second place, because the only hope of making unemployment insurance a success is, as heretofore explained, by having it carried on as the integral part of a nation-wide system of labor exchanges or agencies.

As the result of investigation into the subject of fire insurance which I began in 1914, I have arrived at the conclusion as stated in my report on that subject, that on account of the excessive expense incident to the present method of conducting the fire insurance business, and particularly owing to the existence of a nation-wide fire insurance combine, or trust, of the most oppressive kind, which controls practically all of the fire insurance business of the United States and enforces exorbitant rates everywhere, the fire insurance business should be conducted by the different states or by the United States. The fire insurance combine is able to do this, because under modern commercial and industrial conditions where business is largely done on credit, fire insurance is compulsory; practically as much so as if required by statute. This fact enables the trust to enforce its exactions. The same thing would happen if unemployment insurance was made compulsory, but conducted by commercial interests, and the same reasons require that unemployment insurance should be carried on by the state or United States as a part of the general system of welfare insurance. I believe there would be little hope of successful unemployment insurance unless it was carried on by the United States. Of course, there will be strenuous objections from the financial and insurance interests to this being done as well as to any other form of state insurance, but these objections are entirely selfish in their origin and entitled to little consideration from those who have the welfare of the nation and its workers really at heart.

In any plan of unemployment insurance, particular attention should be given to prevention of fraud and imposition, and also to prevent the steady workers from being taxed to support the idle and thriftless. This can be effectually accomplished by proper provisions and careful administration.

I am certain that by careful study aided by experience, a plan of unemployment insurance can be worked out which will be just and beneficial to both employers and employees, and of immense advantage to the community in general.

INSURANCE AGAINST UNEMPLOYMENT¹

The ideal of security may not at first sight seem a very heroic aim to put before a country whose economic traditions form a veritable romance of adventure full of the joy of risks encountered and dangers overcome. Some may think with misgiving that the conscious pursuit of a policy of safety implies that we have passed the stage of economic youth and expansion and are entering on the dusk of old age. They may feel as when at Rome we contemplate Aurelian's great wall which for centuries withstood the inroads of barbarians, but the building of which none the less marked the definite close of the period of the fearless and aggressive supremacy of Rome. Are the nations of Europe being invited to enter with the old gods into the fortress of Valhalla, there to await in well-planned security but in growing gloom their inevitable decline? The question is cogent and searching, and modern nations must find the true answer at their peril, for if the two ideals of free adventure and economic security admit of no reconciliation, then the fate of our civilization is only a matter of time.

But fortunately it is not necessary to admit the essential opposition of these two ideals rightly conceived. For as it seems to me there is a noble as well as an ignoble ideal of security, and the great problem that lies before us in the future is to distinguish rightly between them and to direct our national policy accordingly.

The first step toward making this distinction is to recognise that ignoble as well as noble results are produced by exposure of risks. If fearless resolution and foresight in encountering and combating danger and risk produced the race of Elizabethan mariners and explorers, and today gives us a Shackleton or a Sven Hedin, we know also the craven and panic-stricken population which lives on the slopes of a volcano, exposed every day to incalculable risks against which no precautions can avail.

It is, I think, a definite induction from history and observation that when risk falls outside certain limits as regards magnitude and calculability, when in short it becomes what I may call a gambler's risk, exposure thereto not only ceases to act

¹ From address by Sir H. Llewellyn Smith, K.C.B., M.A., B.Sc., F.S.S., President of the Section, to the Economic Science and Statistics Section of the British Association for the Advancement of Science. Journal of the Institute of Actuaries, 44 : 511-18. October, 1910.

as a bracing tonic, but produces evil effects of a very serious kind.

It is to the general interest, and it tends to the building up and strengthening of the national character, that everyone should have as strong a motive as possible to guard against risks which can be avoided by reasonable precautions on the part of the individual, and it is also to the general interest that within certain limits the individual should have sufficient resisting power and reserve strength to encounter without the support of his fellows the ordinary minor ups and downs of life which it is not within his power to avoid. What these limits are cannot be laid down dogmatically: they vary widely from nation to nation, from class to class, and from age to age. Vicissitudes which mean famine to the savage pass quite unnoticed in advanced industrial communities, and classes who are accustomed to yearly salaries are unconcerned with fluctuations which bring privation to the weekly wage-earner. But within any given nation and class the limits probably change but slowly, and though different schools of social observers will certainly fix the limits at somewhat different points, and there is no doubt a neutral zone within which the relative public advantages and disadvantages of exposure to risk are fairly equally balanced, or at least may be open to legitimate debate. I am disposed to think that the majority of fair-minded men would not differ very widely in the principles governing the demarcation between the spheres of individual and of social protection against economic risk. To take, for example, the risks of unemployment, I think most people would agree that the personal risk of losing employment through bad work, irregular attendance, or drunken habits is one which it is absolutely necessary in the public interest to leave attached in all its force to the individual workman. For the community to guarantee employment to all irrespective of personal effort or efficiency would necessarily impair the national character and lower the national standard. This is, therefore, a risk the direct incidence of which must be borne by the individual, the action of the community being confined to such indirect measures as may strengthen the power of the individual to meet the risk, as, for example, by technical and general training.

On the other hand I think that most people would agree that in a country like the United Kingdom at the present time, the

incalculable risk of a prolonged depression of trade, due perhaps to some financial catastrophe thousands of miles away, is one the exposure to which of the individual workman does little but harm. Such a risk is too much beyond his powers of foresight, and also too great in magnitude in proportion to his reasonable opportunities of making provision, to exercise any appreciable effect in stimulating self-help, while the liability to see all his savings swept away in a few weeks by cyclical fluctuations in employment which he can do nothing to avoid is a demoralising risk acting on his character precisely like the liability to earthquake or other cataclysm, and discouraging to a marked extent the accumulation of savings and the development and maintenance of habits of providence.

Between these two extremes, the risk due to personal inefficiency and that resulting from a world-wide depression of trade, lie intermediate classes of risks about which there might be more difference of opinion, and the incidence of which probably acts on national character in very different ways in countries at different stages of development.

I propose presently to examine more closely some of these classes of risks. At the moment, however, I am only concerned to illustrate my general proposition that neither free adventure nor economic security suffices singly as an ideal of economic conduct without careful discrimination, and that the criterion for such discrimination is the effect of exposure to each class of risk in building up or degrading the national character.

The crucial question from a practical point of view is, therefore, whether it is possible to devise a scheme of insurance which, while nominally covering unemployment due to all causes other than those which can be definitely excluded, shall automatically discriminate as between the classes of unemployment for which insurance is or is not an appropriate remedy.

We can advance a step toward answering this crucial question by enumerating some of the essential characteristics of any unemployment insurance scheme which seem to follow directly or by necessary implication from the conditions of the problem as here laid down.

1. The scheme must be compulsory; otherwise the bad personal risks against which we must always be on our guard would be certain to predominate.

2. The scheme must be contributory, for only by exacting

rigorously as a necessary qualification for benefit that a sufficient number of weeks' contribution shall have been paid by each recipient can we possibly hope to put limits on the exceptionally bad risks.

3. With the same object in view there must be a maximum limit to the amount of benefit which can be drawn, both absolutely and in relation to the amount of contribution paid; or, in other words, we must in some way or other secure that the number of weeks for which a workman contributes should bear some relation to his claim upon the fund. Armed with this double weapon of a maximum limit to benefit and of a minimum contribution, the operation of the scheme itself will automatically exclude the loafer.

4. The scheme must avoid encouraging unemployment, and for this purpose it is essential that the rate of unemployment benefit payable shall be relatively low. It would be fatal to any scheme to offer compensation for unemployment at a rate approximating to that of ordinary wages.

5. For the same reason it is essential to enlist the interest of all those engaged in the insured trades, whether as employers or as workmen, in reducing unemployment, by associating them with the scheme both as regards contribution and management.

6. As it appears on examination that some trades are more suitable to be dealt with by insurance than others, either because the unemployment in these trades contains a large uninsurable element, or because it takes the form of total discharge rather than short time, or for other reasons, it follows that, for the scheme to have the best chance of success, it should be based upon the trade group, and should at the outset be partial in operation.

7. The group of trades to which the scheme is to be applied must, however, be a large one, and must extend throughout the United Kingdom, as it is essential that industrial mobility as between occupations and districts should not be unduly checked.

8. A state subvention and guarantee will be necessary, in addition to contributions from the trades affected, in order to give the necessary stability and security, and also in order to justify the amount of state control that will be necessary.

9. The scheme must aim at encouraging the regular employer and workman, and discriminating against casual engagements. Otherwise it will be subject to the criticism of placing an undue

burden on the regular for the benefit of the irregular members of the trade.

The scheme must not act as a discouragement to voluntary provision for unemployment, and for that purpose some well-devised plan of cooperation is essential between the state organisation and the voluntary associations which at present provide unemployment benefit for their members.

Our analysis, therefore, leads us step by step to the contemplation of a national contributory scheme of insurance universal in its operation within the limits of a large group of trades—a group so far as possible self-contained and carefully selected as favourable for the experiment, the funds being derived from compulsory contributions from all those engaged in these trades, with a subsidy and guarantee from the state, and the rules relating to benefit being so devised as to discriminate effectively against unemployment which is mainly due to personal defects, while giving a substantial allowance to those whose unemployment results from industrial causes beyond the control of the individual.

Is such a scheme practicable?

This is a question partly actuarial, partly administrative, and partly political, and it is, of course, quite impossible to discuss it adequately on an occasion such as this.

I may, however, say that so far as can be judged from such data as exist (and those data are admittedly imperfect and rest on a somewhat narrow basis), a scheme framed on the lines I have indicated is actuarially possible, at least for such a group of trades as building, engineering, and shipbuilding—that is to say, a reasonable scale of contributions will yield benefits substantial in amount and of sufficient duration to cover the bulk of the unemployment ordinarily met with in these trades.

The administrative difficulties of such a scheme are, of course, great, but none of these difficulties are, I think, insuperable if there be a general desire that the experiment should be made. Certainly the experience of the few foreign schemes which have broken down creates no presumption against success, for the failures have been quite clearly attributable to causes which would not operate in the case of a national scheme such as is now under discussion, especially if it were worked, as it naturally would be, in close connection with the new labour exchanges.

Perhaps the most difficult administrative problem would be

the adjustment of the scheme, so that while its benefits are not confined to workmen for whom provision is made by voluntary associations, it would yet operate so as to encourage the work of these associations, and not to undermine and destroy them, either by competition or detailed control. The problem, however, though difficult, is one for which a solution can assuredly be found if it be the general desire that a scheme shall be brought into operation.

The remaining question is one of high policy. What importance do we as a nation attach to the policy of promoting industrial security by collective action? And what sacrifices are those interested prepared to make for such object, and, in particular, to minimise the irregularity of working-class incomes so far as affected by irregular demand for labour? The final answer will depend not only on the general view taken of the relations of the individual and the state, and of the scope and limits of political action, but also on the relative weight attached to this particular object as compared with other objects which also have claims on public funds and energy.

UNEMPLOYMENT PREVENTION AND INSURANCE¹

Unemployment insurance should be utilized to maintain, through out-of-work benefits, those reserves of labor which, despite all the efforts of the wisest engineers for decades to come, will still be necessary to meet the unprevented fluctuations of industry. The financial burden of this maintenance should properly fall on the industry (employers and workers as a whole) and upon the consuming public, rather than upon the fraction of the workers who are in no way responsible for industrial fluctuations and who are as essential, even in their periods of unemployment, to the well-being of industry as are the reserves of an army. Furthermore, it is as important for society and for industry as for the workers themselves that their character and physique be preserved during periods of unemployment so that they may, when called for, return to industry with unimpaired efficiency, and may be preserved from dropping

¹ From article by John B. Andrews. American Labor Legislation Review. 10 : 233-9. December, 1920.

into the ranks of the unemployed where they will constitute a much more serious problem.

Three principal methods of unemployment insurance have been developed. Perhaps the earliest of these was the out-of-work benefit system of the trade unions. In the United States and Canada the number of such efforts on a national scale has been very limited. Including all of such benefits given from time to time by international and local unions, the total amount of relief provided is, in comparison with the need of all unemployed workers, an insignificant sum.

The so-called "Ghent system" of government subsidies (usually municipal) to trade union organizations which pay out-of-work benefits has spread through a large number of industrial centers in Western Europe. One weakness of this plan, often pointed out, is that it makes no provision for insurance against unemployment among those workers who do not belong to the organization receiving the subvention. Such a plan in a country where trade unionism is not widely established would meet the needs of only a small percentage of employed people. And the vast majority of those who would most need the assistance in time of unemployment would be the very ones who would not have the protection. There are, however, a number of features to commend this system, especially its advantages from the standpoint of administration.

Public unemployment insurance seeks to make the protection universal, and employers, workers and the state usually become joint contributors. The outstanding example of this system is compulsory nation-wide insurance in Great Britain. Beginning there in 1912 with twenty-five hundred thousand workers so protected, the plan, as a result of eight years of practical experience, was extended in 1920 to cover twelve million workers or two-thirds of all employed persons—nearly one-fourth of the entire population. Benefits also have been greatly liberalized; the waiting period during which no payments are made has been cut down from one week to three days, and weekly cash benefits have been more than doubled in amount. This new law—in effect in England on November 8, 1920—is the most significant measure of this kind ever adopted anywhere. It is an extension through evolutionary development. It is overwhelming testimony that public unemployment insurance legislation can be successfully administered.

Of great assistance in the administration of public unemployment insurance is a public employment service—now recognized as an essential step in any comprehensive program for combatting unemployment and its consequences. City and state employment bureaus in the United States were supplemented during the World War by a hurriedly organized Federal system. This machinery performed an important function at a critical time, but when the emergency was past the greater part of it was unceremoniously scrapped by Congress, which failed to grant needed appropriations. A bill to establish this service on an adequate permanent basis is again before Congress and should be vigorously supported. Canada meanwhile has fared better and under its present capable direction the Dominion service can render effective aid either by directing men to jobs or by helping to administer unemployment insurance when it is established. This, too, effectively balks the malingerer.

In addition to threatening industrial depression here and the extension of insurance legislation in England, there have been several recent developments in the United States and Canada which have aroused increased interest in unemployment insurance. Canada having built up an efficient national system of employment bureaus, at the close of the war also surprised herself by the ease with which she administered the unemployed benefits to discharged soldiers. The Canadian Trades and Labor Congress has since adopted a resolution favoring state unemployment insurance. And at the Boston convention in May, 1920, of the powerful Amalgamated Clothing Workers of America, a resolution was adopted directing that immediate steps be taken toward creating an unemployment fund for that industry. The following opinion appeared to be held unanimously:

Justice dictates that the industry which depends upon the workers to keep it alive should take care of them when they are unemployed. That can be done only by the creation of a special fund for the payment of unemployment wages; no gift and no alms, but wages from the industry to the worker. There is no reason why the industry which pays a permanent tax to the various insurance companies in order to indemnify the employer in case of emergency should not likewise have a permanent fund for the indemnification for lack of work. The welfare of the workers in the industry should be entitled to at least as much consideration as the property of the employer.

It should not be forgotten in this connection that a few American employers are already making voluntary private

experiments in unemployment insurance, that is, in the form of establishment funds. From specific information which I have recently gathered from several large employers of labor it is apparent that these systems are usually wholly the employer's undertaking although a committee of workmen may be used as an aid in their administration. The employers pay the cost, from money set aside by the directors out of the profits. But it is felt in these instances that the burden of unemployment ought to be jointly shared by the employer and the employee, and the fund is therefore not a guarantee of the full wage rate. In one establishment employees with dependents, when out of work, receive 80 per cent of wages; those without dependents receive 60 per cent. One employer's opinion, which one must wish were more widely shared by "captains of industry," is as follows:

The employer's relation to unemployment is not yet clearly determined. The notion that he has *any* element of responsibility for unemployment which requires consideration upon his part, though accepted by forward-looking thinkers on the subject, has not yet lost its novelty. Limitations upon this responsibility begin to suggest themselves on the most casual thought; for the employer, himself, is obviously often in the grip of conditions that operate beyond the range of his control or of his most searching vision. Nevertheless, although the *moral* responsibility for unemployment cannot invariably be laid at the door of the employer, it is the employer who can both reduce the amount of unemployment among his employees by proper management, and can mitigate the hardship of such unemployment as cannot be avoided by making reservations for contingencies beyond his control.

By its efforts to prevent seasonal unemployment, which is that phase of unemployment which is largely controllable by the employer, by carefully distinguishing operating expenses from the cost of unemployment relief, and by budgeting unemployment relief and working with its employees in testing out relief methods, this company is endeavoring to develop a scientific method of solving the greatest evil of present working conditions. In this endeavor this company has kept two fundamental principles constantly in mind. The first is, that the highest goal is always the prevention, not the relief of unemployment. The second is, that what will do most to prevent relief from having a tendency to pauperize the employees and check their efforts to safeguard their future, and what will do most to make the giving of relief a stimulus to the employer to prevent unemployment is the *proper distribution of the expense of unemployment between the employer, the employee and the public.*

It is significant that official government representatives and

representative employers and workers from forty countries, meeting at Washington in 1919 in the first official international labor conference under the League of Nations, had no difficulty in agreeing to recommend that each country establish "an effective system of unemployment insurance." It is interesting to note that Italy and Austria are putting national unemployment insurance into effect this year. There is reason to anticipate that within a short time the principal industrial countries of the world (except the United States?) will have established unemployment insurance.

INSURANCE AGAINST UNEMPLOYMENT¹

If there were any hope of an early adoption by American industry, legislation and high finance of effective methods of regularizing employment and preventing cyclical or occasional periods of general panic and trade depression, it might be argued that insurance against that risk is not necessary. If wages were so high that practically every wage-earner could lay by a sum sufficient to provide for his own risk of unemployment, and if thrift were a universal national virtue, likewise would unemployment insurance be unnecessary; each could invest his savings in a form appealing to him as most attractive, and if he were injudicious in its choice he would have only himself to blame.

But obviously there would be no need to discuss a preparedness or relief program if such a state of things existed. The principal fact we must understand [and which some find it difficult to understand especially now, after the exaggerated descriptions of working class prosperity with which the press and the popular magazines have regaled us during the last three years—Editor] is that large numbers of work-people in the United States do not enjoy an income sufficient to enable individual provision for hard times. Moreover, the movement for regularization of employment, since it involves an educational process, develops only slowly; and trade depressions are likely for some time to play a large part in the economic life of the country. The New York committee therefore gave careful study to different methods of unemployment insurance.

¹ Survey. 45 : supplement x-xi. February 5, 1921.

The first argument against it encountered was that unemployment is not an altogether unavoidable risk. One employer or a group of industrial interests may make more adequate preparation to avoid frequent fluctuations in the demand for labor than others. Some employer may neglect all precautions and deal with labor as with bank balances which can be increased and reduced at will as the exigencies of the business demand. The risk of unemployment for the employees in these plants is unequal. But so are all risks. One captain is a more skillful seamen than another, one wife a more intelligent housekeeper than another; yet insurance premiums do not vary with the differences in the risk of shipwreck or death from digestive diseases. A rough approximation to an average is sufficient to render to each policy holder the service of a definite provision against a future possible need without serious injustice. Thousands voluntarily pool their risks in this way without complaint; and the averaging of their contributions is no more resented by them than is an equal tax rate among persons receiving an unequal amount of service from the taxing authority.

Another objection is that a large proportion of wage-earners are too poor to make any provision of this kind and that, even if they could do so without injury to their immediate standards of living, their maintenance during involuntary idleness should be made a burden upon the industry which, through faulty management, excessive speculation and other avoidable action, was responsible therefor. There is no valid answer to this argument, except to admit that, under present conditions, insurance cannot become a universally applicable remedy of distress arising from unemployment. Nevertheless, compared with other proposed means of providing against unemployment, it has advantages which give it an outstanding importance. It is the only expedient that combines regular preparatory provision with a definite scheme of benefit thoroughly understood before the risk is incurred, with complete absence of charitable aid and with the application of a rigid test to claims.

Of existing provision by trade unions, no complete account is available. Practically in every country where unemployment insurance by the trade unions has been developed to a considerable extent, this has largely been brought about by financial incentives held out to the unions by state or city. Voluntary insurance by an industrial group does not exclude the possibility

of public subsidies with so much public control as is necessary to insure the use and distribution of these subsidies in accordance with their purpose.

UNEMPLOYMENT SUBSIDIES¹

I have not yet been able to obtain the official version of the decisions of the conference but the text of the resolution in question is, I believe, approximately as follows:

The conference although recognising the practical difficulties which might in some cases arise from the immediate putting into operation of these principles, nevertheless considers that the governments should abolish at the earliest possible moment all measures contrary to economic laws and having a purely artificial effect, tending to hide from the people the real economic situation of a country. Among such measures should be included (a) the artificial reduction in the price of bread and other foodstuffs, of coal and other raw material, obtained by fixing the sale price to the public lower than the cost price, *together with the continuance of unemployment donations which tend to the demoralisation of the worker instead of encouraging readiness to work.*

Of course I do not know what evidence the Finance Commission of the conference had before them when they framed this resolution nor how far the commission itself contained experts on the subject of unemployment. It seems to me, however, that the resolution as drafted is of so sweeping a character as to be incapable of justification.

In the first place, no distinction appears to be drawn between the contributory and non-contributory schemes for relieving unemployment. That some form of contributory scheme is sound and necessary is now becoming generally recognised. The Washington Conference adopted a recommendation by sixty-six votes to three, to the effect that each state member of the International Labour Organisation should take steps "to establish an effective system of unemployment insurance, either through a government system or through a system of government subventions to associations whose rules provide for the payment

¹ From article, Brussels International Financial Conference and Unemployment Subsidies, by Albert Thomas, Director International Labour Office. International Labour Office. Bulletin. n.s. 10 : 14-19. November 10, 1920.

of benefits to their unemployed members." Systems of contributory insurance have now been adopted or are at present under discussion in a considerable number of European countries. In Great Britain the Unemployment Insurance Act (1920), which comes into force on November 8th, provides for compulsory contributory insurance against unemployment in all industrial occupations, this act being an extension of the Act of 1911, which applied contributory insurance to a number of specified trades. Similar measures have recently been adopted in Italy and Austria, and are under consideration in Germany and Switzerland, whilst the governments of Belgium, Holland and the Scandinavian countries are extending their systems of subsidies to the *Caisse de Chômage*, which also exist in France and Spain. In many instances these systems of unemployment insurance are worked through the agency of the trade unions, who themselves contribute a proportion of the benefit from their funds. Trade union administration has been found to give the best possible guarantees that no worker receives a payment while out of employment, unless no work is available for him. Not only is it contrary to the interests of the trade unions that their funds should be dissipated unnecessarily, but the personal knowledge possessed by the trade union officials of the individual circumstances of their members, enables them to exercise strict control.

It cannot be doubted that the fear of unemployment is one of the most powerful motives affecting the worker, and that it is apt to have a marked effect on his production, because he fears that if he produces too much, there may not be sufficient work to maintain him and his comrades in employment. Although this view may in the long run be economically unsound, there can be no question as to its psychological effect. It is coming to be more and more recognised that the maximum of production is not likely to be obtained, unless the worker is given some effective guarantee against unemployment. It would, therefore, be very difficult to maintain that money expended by the state in subsidising schemes for contributory insurance is money wasted. A return to the old system which left the worker at the mercy of the vicissitudes of industry, is becoming more and more impossible under the conditions of the present day. The workers regard the fact of unemployment as one of the most vital defects of the present industrial order, and it is

natural, therefore, that they should see in the Brussels resolution a reactionary tendency which is contrary to the trend of modern social progress.

The Brussels resolution also appears to make no distinction between normal and transitional periods. During the transitional period immediately following the Armistice every belligerent country was forced to introduce a system of unemployment donations, in order to preserve the men who had been discharged from their armed forces or from the munitions industries from starvation until the necessary reorganisation of industry had been effected, which would enable them once more to be employed. There is a great mass of evidence from a large number of countries proving the absolute necessity of measures of this kind, the alternative to which would certainly have been grave social disorders. An examination of the results of these measures in Germany, for instance, shows that it was just in the districts where unemployment relief was best organised that the danger of civil war was least in evidence. Moreover, I think it would be difficult to prove that the payment of unemployment relief by the state demoralises the workers and stimulates a tendency to idleness. I do not know on what evidence the Brussels Commission based this statement, but it is possible to quote a large mass of evidence in the contrary sense.

In the first place, in no country so far as I am aware, were the amounts given to the unemployed even approximately equal what they could expect to earn in full work, or even sufficient to enable them to live in reasonable comfort, having regard to the high level of prices, which existed after the Armistice and which has continued to rise still higher throughout the world. Further, the actual facts which are available tend to disprove the idea that the workers were demoralised by receiving a sufficient sum to enable them to avoid actual starvation during periods of unemployment. In Belgium, for instance, a very large proportion of the working population had been in receipt of unemployment donations during the four years of German occupation. It was thought by many that the result would be complete demoralisation and a reluctance to resume work when industry was restarted. It is, however, well-known that in few countries have the workers displayed a better spirit, and in few countries has the recovery from the war been more rapid, than in Belgium.

Again, in Great Britain the official figures show that so far from the workers being demoralized and unwilling to accept work because they were in receipt of unemployment donations, they were steadily reabsorbed in industry as fast as the re-establishment of normal industrial conditions rendered this possible. Official statistics show that from January 16th to April 25th, 1919, the percentage of discharged soldiers re-absorbed in industry exceeded 80 during each week of that period and in some weeks was as high as 85. Similarly, as regards civilian men thrown out of employment by the cessation of war-work, the percentage of those reabsorbed on January 3rd 1919 was 40.1 per cent, but this figure rose steadily until it reached 64.3 per cent on April 25th. Moreover, the Committee of Enquiry appointed last year by the British government to investigate the scheme of out-of-work donations, made no recommendation for the abolition of the scheme, and only suggested a certain number of modifications in its administration. These facts seem clearly to indicate that the workers were anxious to take work as soon as it was available for them, and that their maintenance during enforced unemployment was a duty and a necessity which the state could not avoid during the period of transition.

Lastly, attention should be called to the efforts made in certain countries to secure some return for the sums expended on unemployment relief. In the case of Germany, for instance, in addition to the payment of out-of-work donations to the unemployed, a great effort has been made to combat any tendency to demoralisation, by encouraging relief works, and work of general utility on which those out of employment can be employed. These efforts have taken two forms, first, the encouragement of relief work by corporations and by private employers, and secondly, the subsidising of corporations, cooperative guilds of the unemployed, and under certain conditions, of private individuals, in order to enable useful work, such as repairs to public and private buildings to be undertaken which would otherwise not be put in hand owing to the lack of the necessary capital. Industries and trades in distress are also assisted under this scheme, and the closing down of any undertaking is not permitted unless it has been sanctioned by the proper authorities. A further measure which has been taken in order to reduce the number of unemployed, has been the dismissal of those who were not employed in 1914 in the locality where they now reside, in

order to compel those who came to the cities from the land to return to agricultural work. Similarly, persons who are not dependent on their own efforts to earn a livelihood, have also been discharged, such as the wives of men in regular employment, in order to make place for those who cannot earn their living.

It will be seen that by these means a serious effort has been made in Germany to combat the evil of unemployment, but it can hardly be contended that the German government was not justified in spending considerable sums on relief of unemployment in view of the troubled state of the country. At the present moment there are one million persons unemployed in Germany according to a statement made by the Federal Minister of Labour on September 29th, and at least one-and-a half millions, or more, working short time, sometimes not more than two hours a day. This is evidently a state of affairs which no government could afford to ignore, and which necessitated drastic measures in order to preserve the working population from penury and despair, until it is possible to restore normal economic conditions.

I will mention but one further consideration. The uncertainty which troubles the minds of the workers at the present moment is a matter of common knowledge. So too is the widespread expression of the theory that the whole of the present organisation of society is bad, that the present social system is bankrupt, that it is incapable of finding solutions that will allow, after the terrible catastrophe of the war, of the reconstruction of Europe.

There can therefore be no doubt but that revolutionary propaganda could ask to be provided with no better argument than to be able to say that not only is the present organisation of society unable to assure to the workers continuity of employment, but that it refuses the assistance which is rendered necessary by a state of affairs for which they have no responsibility because they have no share in industrial control.

The importance of this last consideration I am sure you will fully recognize.

The above is a general indication of the arguments and facts which can be advanced in contradiction of the recommendation and the implications of the Brussels resolution. It would be possible, if you thought it desirable, to expand them in such a way as to present a reasoned memorandum on the whole subject of unemployment relief, which the International Labour

Office is studying very closely. I do not know whether you think that it is necessary or possible to take any steps toward mitigating the unfortunate effects which this resolution has produced in certain quarters. Personally I feel that these effects may be so widespread, and so serious from the point of view of the reputation of the League that some steps should be taken to counteract them. This is, however, a point on which you are capable of forming a better opinion than I am, and I would only conclude by saying that, having drawn your attention to the matter, as I felt bound to do, I am entirely at your disposal in order to render you any further assistance which you may desire.

NEGATIVE DISCUSSION

BRITISH UNEMPLOYMENT INSURANCE— ACT—1921¹

The English workers, especially the trade-unionists, opposed the measure strongly while it was before Parliament,² but it was carried through in the face of their opposition.

The fundamental objection they brought against it was that it was purely a relief measure, without a single feature designed to diminish unemployment. For years past the leaders of the workers have argued that unemployment is an unnecessary evil, that in many industries it might be prevented altogether by efficient planning and the maintenance of a definite relation between the force employed and the annual production desired, and that in the case of seasonal industries much might be done in the way of dovetailing occupations calling for similar qualifications, so that workers might transfer from one to another, as the slack time of one coincided with the busy time of another. Unemployment which could not be prevented by such means should, they feel, be alleviated by the use of public works as a kind of employment reserve, work being pressed when ordinary industrial demands slacken, and retarded when workers are urgently needed elsewhere. Such a treatment of unemployment was definitely demanded by the labor party nearly two years before the war terminated. In the spring of 1919 the joint committee of employers and employees, appointed by Lloyd George to report on methods of allaying industrial unrest, included among the points on which they were unanimously agreed an immediate program of this kind for the prevention of unemployment. This point was adopted by the National Industrial Conference, to which the joint committee reported, and the conference understood that the government was pledged to carry out its recommendations. For some years, therefore, the workers have had in mind the idea of a constructive treatment of

¹ Monthly Labor Review. 11 : 569-73. September, 1920.

² This discussion is based on material appearing in English daily and weekly papers and on reports of the debates in Parliament.

unemployment, and express severe disappointment to find, as they allege, that the government proposes nothing more helpful than an increase in the number of those who may receive aid when out of work.

As a relief measure, also, the workers assert that there are two grave objections to the bill: it enforces contributions from the workers, and the amount of relief given is inadequate. The contributions from the worker, they hold, are unjustifiable, since under the present industrial system he has no voice in determining the policy of the employer and is therefore liable at any time to find himself unemployed without fault of his own. The employer can get back his contribution in the shape of increased prices, but the worker has no means of passing on his share; it is a deduction from his income, pure and simple.

As to the adequacy of the relief given, the workers declare that at prevailing prices, 12s. and 15s. (\$2.92, and \$3.65, par) a week are ridiculously insufficient. In November, 1918, when prices had not reached their present height, the government fixed the out-of-work donation at 20s. (\$4.87, par) for women and 25s. (\$6.08, par) for men, and the following month increased these sums by 4s. (97 cents, par) weekly, conceding that the first amounts were insufficient; yet the amounts now proposed are little more than half those agreed upon in December, 1918.

A third and most serious objection is found in the provision that the benefit may be administered by non-trade union societies if approved by the authorities. This is objected to on three grounds: 1, on account of the expense and the likelihood of unsatisfactory administration; 2, because it will operate to prevent any industry from "contracting out," that is, for adopting a plan for taking care of its own unemployment, as provided for in the section headed "Special schemes for industries"; and, 3, because it may be used to undermine trade-unionism.

As to the first, it is pointed out that the wise administration of an unemployment benefit demands some knowledge of the trade of the unemployed person and some power to place him in a job or to advise him as to what sort of a job he ought to accept. The trade unions have a body of specialized knowledge of this sort in which the other societies are utterly lacking. It is true that the approved societies may set up employment bureaus, but this involved the expense of duplicating machinery

already existing in both the labor exchanges and the trade unions, while the acquisition of the detailed knowledge of trade conditions, etc., necessary for the satisfactory working of these bureaus would be a long process. Also, as there is no limit on the number of societies which may administer the benefit, if approved, it is impossible to say how much duplication of effort may be involved and what amount of decentralization may be introduced into the matter of finding work for the unemployed.

As to the second objection, an industry may obviously be much more inclined to make some arrangement for contracting out of the bill, if it has only the trade unions to deal with. If twenty different societies have to be taken into consideration and brought to an agreement on what shall be done and how it shall be accomplished, there is little likelihood that any industry will attempt the task. It will be simpler and easier to accept the bill as it stands and come under its terms. But the contracting out, which makes an industry responsible for its own unemployment, would thereby give the industry a strong incentive to reduce the amount of unemployment for which it must provide, and might therefore tend to a constructive treatment of the problem. Consequently anything which makes contracting out difficult or unlikely is actively detrimental to the campaign against unemployment.

Third, the unions claim that the provision that other societies may administer the benefit is bound at the best to interfere with the prestige of the unions and may at the worst furnish an effective weapon against them. The unemployment benefit, they assert, has long been an important part of the advantages to be derived from trade union membership, and though the moral effect is less when the benefit comes in part from government subsidies, still the fact that it is administered through the unions tends to uphold their influence, which will suffer in direct proportion as the benefit is obtained through other societies. Equally serious, from the standpoint of the unions, is the fact that they have no assurance that the other societies may not be used as strike-breaking agencies. An unemployed man who is offered suitable work and refuses it loses his claim to the unemployment benefit. This provision is not intended to force men into strike breaking, and as long as the benefit is administered through the trade unions and the employment exchanges, the unions can be sure that it is not used for that purpose; but in

the case of the approved societies will they have such assurance? Even if the latter have no desire to interfere with the unions their lack of familiarity with the work of employment bureaus will tend to make them furnish employees without inquiring too carefully into the purposes of the prospective employer; while if they should wish to work against the unions, furnishing strike breakers and discriminating against union men in the matter of furnishing employment are easy means of injuring them. Rightly or wrongly, organized labor believes that the admission of approved societies to a share in the administration of the bill is intended as an injury to them, and they resent it with a corresponding bitterness.

Other charges brought against the bill are that it is unsound from an actuarial standpoint, since it does not make allowance for anything like the amount of unemployment which many believe will prevail during the coming winter; that the discrimination between men and women is unfair; that the unemployment benefit takes account only of the worker himself, making no allowance for dependents; and that under its terms the casual worker is penalized by being forced to make contributions for a benefit which, owing to the nature of his employment and the length of the waiting period, he could never qualify to receive.

INSURANCE AGAINST UNEMPLOYMENT¹

Many attempts to formulate some system of unemployment insurance have been made. In nearly every instance it has resulted in utter failure, due to a variety of causes, including the following:

1. The absence of a satisfactory test of unemployment. An accident may be verified by witnesses or objectively; sickness may be determined by medical experts, perhaps not so accurately as an accident. The impossibility of finding employment is difficult to determine, since there is no conclusive means of establishing the fact.
2. The wages paid the vast majority of unskilled workers are barely sufficient to support existence. It is therefore self-evident that such people could not pay for insurance.

¹ From article by Theodore E. Gaty, Secretary of the Fidelity and Casualty Company. *Journal of Commerce*. 88 : 4. August 18, 1915..

3. It is perfectly obvious that employers will not pay and, as a matter of fact, cannot pay for unemployment insurance unless all employers are compelled to contribute toward the cost. Any industry would be seriously handicapped that undertook to pay for unemployment insurance, and furthermore it is extremely doubtful whether any concern would be willing to pay a premium to cover strikes, lockouts or employees discharged for fault or inefficiency.

4. No system of unemployment insurance could be operated without an effective method of detecting fraud or wilful idleness. It would, therefore, be necessary to operate labor exchanges or employment agencies.

5. No system of out-of-work benefits could be successfully conducted without the cooperation of labor unions.

6. It is essential that a large surplus should be accumulated during periods of prosperity in order to take care of the deficit bound to accrue as the result of industrial depression.

7. Provision must be made for seasonal trades, either by the employers establishing a system whereby the employees would be continuously employed, or by charging high rates on such seasonal employments.

RELIEF FOR WIDOWS AND ORPHANS

LIFE INSURANCE¹

In the future another branch, as yet very little spoken of, is bound to achieve a good deal of prominence. This is the insurance of widows and orphans, or ordinary life insurance.

It may seem peculiar that while this form of insurance, providing financial relief in case of death from ordinary causes, is the most popular form of private insurance, it is least taken care of by any existing system of social insurance, though for obvious reasons, the necessity for it is greatest among the wage-earning class. The reason for this seemingly inexplicable exception is found not in the lack of need, but of the ways and means. Ordinary life insurance is of necessity costly. It is cheaper for younger age groups, when the risk of death is small, but then the need of it is not very great. With increasing age the cost, on actuarial principles, rises with the need. In so far as efforts have been made to provide the wage-earner with life insurance, they have only succeeded in proving the frightfully high cost, and one is justified in doubting whether the advantages of our entire system of so-called industrial life insurance justify the cost.

But it becomes quite evident that the structure of social insurance is not complete until at least the widows and orphans are taken care of by the system. For here appears again the central principle upon which social insurance is based—the inability of the wage-earning class to meet the cost of insurance based upon ordinary commercial principles.

Already the first steps in the right direction have been made in a few isolated instances. What was true of old-age and invalidity insurance is also true of widow's and orphan's insurance. The more compact and better paid groups of wage-earners in navigation, mining, and railroads, are already provided with such form of insurance in many countries. We already find such

¹ From article, Social Insurance: What the Phrase Means and Why, by I. M. Rubinow, Chief Statistician, Accident Guarantee Corporation. Survey. 31 : 268-9. December 6, 1913.

pension systems in the mining industry of Austria, Belgium, France, Germany, and Great Britain; in the railroad industry of Belgium, France, Germany, Russia, and Spain; in the navigation industry of France, Germany, and others.

Outside these definite wage groups several states have made an effort to meet the need by providing cheap voluntary insurance. Such efforts either in connection with the Postal Savings Bank System, or old-age insurance institutions, have been made in England, in France, in Italy, and even in Russia. Needless to say they have been invariably complete failures. France was the pioneer in this problem, by providing for a small death benefit continuing only for six months, as a part of its new old-age insurance system. But Germany was again the first to provide a comprehensive widows' and orphans' pension system for its entire wage-earning population, through the new insurance act of 1911, revising all its existing social insurance legislation. The United States, within the last two or three years, by the somewhat sudden development of the mothers' pension movement, has indicated at least the possibility of a different solution of the same problem. Thus a new path has been opened for other civilized countries to follow.

WIDOWS AND ORPHANS¹

Although doubtless much below the actual numbers, let us assume that there were dependent families left in two-thirds of the premature deaths, and that two-thirds of the families were left entirely unprovided for by the death of the worker, then there would be 405,492 families left unprovided for in the one year 1910. These figures will at least serve to show the great necessity there is for some form of life insurance to enable workers to provide for their families after death. So far as these necessities are satisfied at all, at the present time, is through one or the other of the following institutions: commercial life insurance companies; voluntary mutual life insurance companies; voluntary state life insurance; compulsory state life

¹ From Preliminary Report to the Social Insurance Committee of the National Convention of Insurance Commissioners, by Rufus M. Potts, Insurance Superintendent, State of Illinois; chairman. United States Congress, House, Committee on Labor. Hearings on H.J. Res. 159. 64th Congress, 1st session, April 6 and 11, 1916. p. 217-20. Washington.

insurance. The question then arises to what extent are these agencies capable of providing for these pressing and widespread emergencies. Considering first, the private commercial life insurance companies, every one familiar with the details of the life-insurance business at the present time is aware of the tremendous amount of insurance carried by these institutions, amounting on December 31, 1914, in the United States to \$21,955,771,318 of insurance in force. When, however, we come to consider the cost of such insurance, it becomes plain that it can not be used by ordinary workmen to provide for their families.

A further fact why such insurance is often unavailable to the average worker is the fact that the payments are made semi-annually or quarterly, which renders it impossible as a practical proposition for the workman because he cannot accumulate sufficient sums to pay the relatively large installments. Although the attempt has been made by large numbers of working people to carry ordinary life insurance, frequently when sickness, unemployment, or other emergencies occurred payments could not be made, and what had previously been paid, subject to small equities in some cases, was lost to the insured, which discouraged him, so that he ceased to make any attempt to make any provision for the future of his family.

For the purpose of meeting these conditions as to time of payment necessary in workingmen's insurance, the so-called "industrial" plan of life insurance was devised many years ago. Under this plan of life insurance the payments are made in weekly installments to a collector who calls at the residence, which makes them much more apt to be promptly met by the classes for whom they were designed. The great drawback of this form of insurance is its immense cost by reason of the weekly collection system, as well as the other expensive features which it shares with ordinary life insurance. The poorest people pay the highest cost for life insurance.

One careful investigator of the economic conditions of the workers of the United States arrives at the following conclusion respecting industrial insurance for these classes:

The form of insurance within the means of the laborers, though it offers some superficial advantages, is exorbitantly expensive and is perverted in use. Thus, industrial insurance has probably been injurious to most of its supposed beneficiaries.

Another kind of life insurance which many have hoped would

enable workers dying prematurely to provide for their dependents is voluntary cooperative insurance, mostly in the form of so-called fraternal insurance. It is true that by means of fraternal societies a very much larger number of the people of the United States have been able to make adequate provision for their dependents as shown by the following figures for 498 societies reporting for December 31, 1914: Number of policies in force, 7,868,554; insurance in force, \$9,171,284,227.

The "legal reserve" and the "fraternals" combined only provide for a small fraction of the total population of the United States. The "industrial" life insurance covers a large part of the remainder, but as shown before, is wholly inadequate in amount of average policy to provide for a dependent family.

PENSIONS TO WIDOWS AND ORPHANS¹

In Great Britain, about one hundred and fifty years ago, or soon after it was found practical to furnish life insurance at all, there was a rage for the organization of societies to provide benefits for widows, payable periodically during their widowhood and purchased by contributions made by their husbands while alive.

This was a peculiarly insidious form of assessment insurance. At first the cost was almost nothing, because a society would run for several months, or even for a year, without having any deaths whatever. If a few deaths occurred, the cost was still exceedingly light, as only enough was collected from members to pay the pensions then falling due. The expense, however, steadily increased and in a young society was being constantly shifted to the shoulders of those who came in later. The first members, it is plain, paid nothing like a fair equivalent for the insurance which was provided, taking into account the length of time during which the benefits might have to be furnished their widows. On the other hand, those who came in later paid much more than the fair equivalent, most of their contributions being absorbed to pay pensions to widows of former members. The matter might not have become crucial, had it not been that because of insufficient reserves, members were not securing

¹ From Lee Kaufer Frankel and Miles M. Dawson. *Workingmen's Insurance in Europe*. p. 304-12. Russell Sage Foundation. New York. 1910.

reliable protection for their widows, the sole assurance of permanency depending upon a constant influx of new members. As young men preferred to join societies just starting at a lower temporary cost, the older societies languished and died and the new societies, growing old in turn, repeated the same history of false hopes and bitter disappointments.

In nearly all countries attempts have been made to popularize "survivorship annuities" as they are known, in connection with the regular insurance companies. These annuities are not made payable merely during the widowhood but also during the entire after lifetime of the widow. That is to say, they are not terminable upon her remarriage. While such annuities have been sold everywhere they have had no great development except in Denmark where the "Statsanstalt for Livsforsikring," already referred to, has transacted a phenomenally large business. Even in Denmark, while the amount of business is large, so that it has been possible to investigate with much success the mortality among surviving widows, it in no way compares with the volume of life insurance in force in that country.

In France and Belgium, where a large business in widows' annuities has been transacted by state departments, the proportion of these annuities, which are contingent in form, is also found to be very small, although perhaps increasing in importance. These are likewise not dependent upon remarriage.

Mutual friendly societies, organized in France to furnish annuities by means of deposits with the government to be applied to their purchase, and, in Belgium, to purchase annuities directly from the government at a material reduction from the usual price of the same, have shown that no marked tendency exists to purchase contingent annuities. The experience in Sweden is much the same.

In all these countries the purchase of "last survivor" annuities is not infrequent. This annuity, paid for not by current premiums during the lifetime of the husband, but usually by a single premium, and made payable to the husband and wife, furnishes an income from the moment of purchase until the last survivor dies. Both of these forms of annuities are sold likewise by stock companies. In most countries these latter have been able to compete on favorable terms with government departments, even though the latter possess the advantage of having their expenses defrayed out of general taxes. Private companies

cannot compete where higher rates of interest than can safely be realized on investments are guaranteed by the government, or where some other method of direct subvention is employed. This is rarely done except as a special feature available for workingmen only, and is introduced in order to make annuities attractive to them.

The establishment funds or societies composed of the employees of a particular firm or company very frequently provide for survivorship annuities. This is true, likewise, of societies formed among the employees of different firms or companies engaged in the same general lines of business, such as, for instance, banks or insurance companies. Among the clergy of certain churches, widows' funds have been established for the direct purpose of furnishing a pension during widowhood. Originally these funds were without any actuarial or sound financial basis, and, notwithstanding large contributions made to them by employers or others interested in maintaining them, independent of the contributions of members, many failed and others were compelled, as a result of bitter experience, to reduce their benefits. In recent years, however, many of them have been valued, and contributions and benefits readjusted upon a business basis.

A provision for the protection of widows is usually found in connection with pension or establishment funds. These are primarily formed for the purpose of securing to members old age retirement, or invalidity pensions, or both. It is but natural, however, that when such societies are organized, there should soon be a tendency to amplify the plans and purposes so as to include protection for the widows of members similar to that which has been secured for members themselves. While many of these funds also were, or still are, upon an unsound basis, they have submitted in recent years to revaluation and to the introduction of improved business methods. Especially is it the case where these establishment funds cover benefits during disability and are utilized, as in Great Britain, to provide compensation insurance under the workmen's compensation acts, that periodical valuation and adequacy of rates are enforced by statute.

With the exception of the occasional requirement, in connection with establishment funds, that all employees are expected to continue members of such funds, none of the foregoing has

reference to obligatory insurance plans. It is obvious at the outset, that the same principles in regard to solvency do not necessarily apply where membership is obligatory. Thus, where all the young and healthy workingmen are required to become members, and where, as rapidly as they reach a certain minimum age, all those of future generations are required in turn to become members, the peril which attended the assessment plan is neutralized by the compulsion. Under such an obligatory system it is no longer possible for members to leave the society except by abandoning the ranks of wage-earners altogether, or for them to remain outside except by failing to become wage-earners. Therefore, when the number of widows drawing pensions has once reached the proportion normal to the general population, and a reasonably stable equilibrium of cost been realized thereby, each member will be paying on the whole his fair proportion thereof, and securing for the consideration of this payment the absolute protection to which he is entitled.

It is common under all systems of widows' pensions, where the latter is to stop upon remarriage, to provide some special benefit payable at the time of remarriage, both as a compensation for the loss of the pension, and also chiefly as a special inducement thus to relieve the fund. This special benefit is frequently fixed at from one to three years' annuities, paid in one lump sum at the time of remarriage.

In connection with widows' pensions a considerable body of statistics has been accumulated concerning the rates of remarriage, which latter appears to depend upon the age of the widow and the duration of her widowhood. Such tables have been compiled in Great Britain, from the records of widows' funds and from other sources. A great variation is found in the rates of remarriage among widows whose husbands were of different classes, as for instance, clergymen, bank clerks, railway employees, civil service employees, etc. There is abundant evidence that it is considerably less when the widow is in receipt of a pension, as then no financial necessity exists for her remarriage, but rather the contrary, since she suffers a distinct financial loss if she does.

Three sorts of moral hazard must be looked out for when widows' pensions are provided on a voluntary system:

First, the moral hazard that an old member, soon to die, may marry a young and healthy widow, either with the direct

purpose of providing her with a pension or because he has been inveigled into such a marriage without a clear appreciation of what it signifies.

Second, that investigation should be made, not merely of the health of the member but also of the age and health of his wife and the number of children already in existence, since need exists for discrimination in rates with direct relation to these matters.

Third, that in event of second marriage, that is, the remarriage of the husband if the wife who was living at the time he insured, or whom he married after being insured, shall have died, it is usually wise either to provide for a readjustment of the rate or to have the insurance cease entirely upon the death of the first wife, requiring a new application and rerating if the member desires to insure again.

Of course none of these need be specially provided for when the insurance is obligatory; and it is fortunate that it is not then necessary because it would not be practicable to exercise such discrimination, without so increasing the expense of administration that the economy of the obligatory system would to a large degree be lost.

LIFE INSURANCE FOR WORKMEN—PENSIONS FOR WIDOWS AND ORPHANS¹

It scarcely seems necessary to emphasize the fact that premature death of the bread-winner is a serious economic risk which exists in each and every wage-working family. In discussing the economic results of industrial accidents, the effects of fatalities upon the standard of the surviving family were sufficiently indicated. Obviously, from an economic point of view, it matters little whether an industrial accident or an illness was the cause of death. With the higher sick-rate among the wage-workers, with the prevalence of various industrial diseases the death-rate among wage-earners is higher and the average duration of life shorter than among the other groups of population. Normal death after a life of useful toil should come at an age when the immediate descendants at least are beyond the age of dependency. But perhaps few appreciate how comparatively rare are deaths at normal age. Taking all cases

¹ By I. M. Rubinow, Social Insurance. p. 413-38. Copyright by Henry Holt & Co. New York. 1913.

of death under sixty-five as premature, both physiologically and economically, 77 per cent of all deaths in 1908 in the United States were premature.¹ Even if the alarming infant mortality is disregarded and only deaths of occupied males are considered, 73 per cent occurred below the age of sixty-five; 55 per cent occurred below the age of fifty-five; 39 per cent below the age of forty-five. Thus the majority of deaths did, except in cases of wholly unattached bachelors, lead to some measure of economic distress. It goes without saying that these premature deaths are more frequent among wage-workers. Thus, among professional classes, deaths under the age of forty-five constituted nearly 50 per cent of all deaths; in personal service, 60 per cent; in manufactures and mechanical industries, 55 per cent; among the laboring and servant class, 68 per cent.

The economic results of most premature deaths of bread-winners are the problems confronting widowhood and orphanage: the charitable relief of widows burdened with large families, the employment of widows in poorly paid and unsanitary trades, the growth of orphan asylums, and to a large measure, child labor. Though the situations are familiar, almost obvious, a few statistical data will be of some interest in helping to measure the extent of the problems. In 1910, if only 20,381,819 women constituting the female population over twenty be considered, there were 2,712,075 widows, or 13 per cent, for the vast majority of whom widowhood necessarily was an economic problem. No statistics of the number of orphans in the United States exist, as far as we are aware, but it is safe to assume that in the case of widows who are under fifty-five, the majority have dependent children, and the number of such widows within the age-groups 20-55 was 1,177,043, or 7 per cent of all the women at that age.

That the problem of woman's work is to a very considerable extent the problem of widowhood, the following figures will show: of 5,329,292 women employed in gainful occupations in 1900, 857,922 were widows, or fully one-sixth, though widows constituted less than one-tenth of all female persons over ten. Moreover wage-work for a widow is a very much more serious problem than for the unmarried women. It is wage-work not temporary in character as it mostly is for a young unmarried women, looking forward to marriage after a few years of

¹ United States Census Bureau. Mortality Statistics, 1908. p. 19.

employment. It is wage-work of the middle-aged woman, usually broken down in health from childbirth, poverty, and specific female complaints. It is, finally, wage-work in the poorest paid and most unsanitary employments. Thus, common day-laborers constitute less than 1/7 per cent of the unmarried women, and 3/4 per cent of the widows; laundry work, less than 3 per cent of the single women and 13 per cent of the widows. Poor dress-making and seamstress work is another field of endeavor open to aged widows.

A good deal has been written about the cruel parents who feed on the sweat and blood of their children. The peculiar economic conditions of "she-towns" where women and children find ready employment while able-bodied men must live in idleness, have been studied and described. But one of the most obvious and least emphasized causes of child labor is the economic distress of orphanage. A limited investigation into this question made by the United States Census in 1907 from the date of the Census of 1900, and which covered only 23,567 children, showed that over 20 per cent were orphans, either through death or desertion of their father. It is particularly in the street trades (messengers, errand-boys, newsboys), which are responsible for some of the worst features of child labor, that the largest proportion of fatherless children is found.

The need of insurance protection against the economic consequences of death for the wage-workers is thus evident enough. It does not follow from this that the methods of life insurance which have achieved such popularity among the middle classes are at all adapted to the wage-workers.

The economic basis of life insurance, as it is usually practised in this and other countries, is that of accumulation of a fixed sum. The underlying thought, perhaps unconsciously, is a money valuation upon human life. As in case of fire insurance, the sum insured is supposedly big enough to compensate for the loss, so in life insurance, the middle-class man is encouraged to carry a lump amount commensurate with his value. The earning capacity of the bread-winner is capitalized, for modern society has been taught to think in terms of capital and interest. The persistent efforts of private life insurance companies to extend the field of their operations have undoubtedly been socially useful in that they have done a good deal to popularize the concept of insurance. But one of the results of their efforts has been the confusion of insurance and accumulation. The

popularity of short-term endowment policies has been one of the results of this confusion. Expensive endowment policies are carried by thousands who can ill afford them, at a very great cost and sacrifice, when all that they need,—protection against the danger of death,—could be obtained at a cost many times smaller,—simply because they have been taught to combine insurance with forced saving.

When saving is thus combined with insurance, its combined cost becomes too heavy a burden for many.

The cooperative efforts of life insurance by the lower economic groups were usually directed toward simple insurance because of its cheapness.

The combination of life insurance with enforced savings is out of place as far as a class is concerned which can hardly afford to make any savings. Life insurance for wage-workers must approach the problem from an entirely different angle. It must take into consideration the definite economic problems arising out of death, and only those. Workmen's life insurance must be planned with a view of protecting certain definite interest of dependents. For a wage-worker to withhold a portion of his earnings from consumption for the purpose of life insurance in absence of definite beneficiaries would be harmful social waste.

What, then, are the economic losses ensuing from the death of a wage-worker? They are of two kinds: the expenses incidental to death,—the cost of the last illness and the funeral,—and secondly, the loss of income to the widow and children, and, less directly, to other dependent relatives—the superannuated parents, brothers, and sisters. In other words, the problem is very much like that arising from fatal accidents, for which the necessary provisions were already discussed.

MOTHERS' PENSIONS IN THE UNITED STATES¹

There is a large amount of literature on the subject other than that on which the report is based; but the publications which have been used are sufficient to indicate the principal facts as to the pensions and their operation.

¹ From Great Britain. Local Government Board. Intelligence Department. Report. 1918. London. 1918.

The outstanding feature is that the principle of mothers' pensions has been generally recognised in the United States. The pensions are not paid as a matter of course. They are granted only after investigation and where there is need, and subject to supervision. They are borne generally by the county funds; in some cases, partly by the county and partly by the state funds.

The application of the principle presents many defects, and in consequence the general results appear, for the time being, not to be altogether satisfactory. Ten shillings is not transmuted into 15 by calling it a pension, nor is a shiftless mother converted into a model of care and forethought by a grant of money. The gain which comes from any new principle will depend largely on how its adoption is translated into administrative practice; and here the United States has generally more to learn from us than to teach us.

It is significant that the United States, with its strongly individualistic spirit, should have adopted mothers' pensions so widely. No doubt the social reformers who have pushed forward the measures are much less individualistic than the general public; and it is easier in the states than in this country for energetic minorities to secure the passage of reforms of this kind. But the ordinary man or woman has supported, or at least acquiesced in, the proposals, not on doctrinaire grounds, but because it was felt to be unfair that the widow should be left, as was her general lot, without any special provision, and unwise that children should be deprived of the mother's care by being placed in institutions—a practice, however, by no means so general as some supposed.

The fact that in America the communities are comparatively new, that the widow is not surrounded by relatives and friends and may thus be left bitterly isolated in a strange world, is also an important consideration. The old blood community of the family fails, as it must fail increasingly under modern conditions, and is replaced by a new community of social responsibility.

By the end of 1917, mothers' pensions had been adopted in thirty-five states. Limits to the amount of pension are generally fixed, based on the number of children. The limits differ widely in different states.

The actual amount of the pension is determined according to the circumstances of the individual case and according to the available funds.

In many of the states the pension is fixed by the judge of the Juvenile or County Court, an elected official holding office, subject

ject to reelection, for a number of years, and occupying a very different position from a judge or stipendiary magistrate in this country.

In some cases the investigation of claims and the administration of the pensions is also left to the Juvenile Courts, with their probation officers (officials charged with the duty of looking after and, where administration is good, of befriending juvenile offenders).

In a few cases there is special machinery for fixing and administering pensions.

Whatever may be said in favour of the fixing of pensions by the judges of the Juvenile or County Courts, there is a feeling in well-informed quarters that the administration should be handed over to an authority better adapted for this work than the courts.

In only one state (Massachusetts) are the pensions administered by the Poor Law authorities. The prevailing view is that the administration should be separate from the Poor Law, but that there should be much closer relations than at present between the authorities administering pensions and the Poor Law officials.

The grant of pensions is hedged round with conditions. With a few exceptions, the pensions may be allowed only to mothers. In a few states only are the pensions expressly restricted to widows. In a number of states they may be granted where the father is disabled, physically or mentally; in a few states they may be granted even to divorced or deserted mothers.

The mother is expected to engage in gainful employment when able to do so without detriment to herself and, especially, to the care of her children. For this reason, in some states, pensions are not granted if there is only one child. The difficulty of securing suitable employment is recognised.

The problem of the mother who is possessed of some property, familiar in English Poor Law, is also a difficulty in the states. In at least one case, the mother has to exhaust her means before she can receive a pension, a condition not upheld in this country in the grant of relief.

Mothers of illegitimate children, although not expressly excluded from the benefit of the pensions, are in fact aided in very few cases.

The possible effect of pensions in reducing wages is appreciated in some quarters, though no special measures appear to be taken to deal with it, except where administrative oversight is effective, which is not by any means always the case.

As previously mentioned, the cost of the pensions is generally borne by the county, the principal subdivision of the state. In seven states it is borne partly by the state, partly by the county.

In urging the system of mothers' pensions in England, much has been said as to the inadequacy of the out-relief given under the Poor Law. The same charge is made, and apparently with justice, against mothers' pensions as now administered in many of the states.

Mention is also made of serious want of supervision in some instances, the authorities contenting themselves mainly with the mere payment of the pensions. It has to be remembered that the states have not such an organised system of public relief as prevails in older countries, and, in particular, that there is an absence of central supervision; and there is a readier tendency, where opportunity can be wooed so much more freely, of trusting to the individual.

Mothers' pensions seem now an established part of the social machinery in the states. But the best informed opinion is little inclined to rest content simply with mothers' pensions. Some persons, partly, no doubt, under the influence of the still dominant individualistic basis of society, advocate an insurance system which would replace the present pensions, with their tinge of dependence. But, still more hopeful, some of the curious are enquiring why there are and why there should be so many widows. They are directing their attention to preventing the industrial accidents and the deaths from preventable diseases which necessitate widows' pensions. They are convinced, and they demonstrate, that a large proportion, often a very large proportion, of these accidents and deaths could be avoided; and they are pressing forward measures to prevent such in future. Whatever may be said, and much may be said, for the principle of mothers' pensions, it is on these deeper enquiries and efforts that progress chiefly depends.

MOTHER'S PENSIONS IN AMERICA¹

The law itself has been for years guilty of kidnapping children. For no crime at all but because of the misfortune of poverty, mothers have been legally bereft of their little ones.

¹ From article by Judge Henry Neil. Juvenile Court Record. 17 : 7-9. October, 1917.

Children have been kidnapped by the state, shut up, often practically incomunicado, in huge prison-like institutions. Not because their parents failed in love or duty. It was simply because they were poor.

But thirty American states have now redeemed themselves from this crime of violating a fundamental human instinct. They have established a mothers' pension system. Instead of paying an institution to care for the children of poverty-stricken parents, they now pay the mother herself to care for the children.

The phenomenal rapidity with which the mothers' pension system spread over the country, once it had been outlined, is explained by the fact that it appeals to one of the deepest of human emotions, to the same instinct in men that made the case of the kidnapped Lloyd Keet rival in the news an event of world-wide importance.

In 1911 the first mothers' pension law was born. Previous to that time our American states had been saving children from poverty at home by sending them to charitable institutions.

The mothers' pension system is not merely a relief measure. It is a utilitarian system for the benefit not only of the individual directly concerned, but of society, just exactly as the public school is. The mother who bears and rears healthy children is performing an invaluable service to the state, and she deserves state payment for the service if she is in poverty. In New York the law provides that the mother who receives a pension shall be told at the time that it is not a charity but a legal pension.

The result is that the degrading influence of receiving charity does not enter into the case. And the dignity and nobility of motherhood is preserved. The woman with her family about her remains a useful, honored member of society.

And the child likewise is directly benefited. The happiness of home life, its freedom for individual development is his. In the institution where, but for the mothers' pension system he would have been sent, growth, individuality and happiness are all stunted. It would seem unnecessary to argue this point were it not for the fact that society has in the past been so ruthless in breaking up the homes of the poor. Society treats almost as an axiom, when it discusses social systems, the sanctity of family life. The home is considered a foundation stone of our whole civilization. And yet in action, society

has been continually guilty of violating the home, wherever poverty entered into the problem.

And this old system of relieving poverty-stricken homes by breaking them up was not even economical. New York City last year paid \$3,500,000 and individuals contributed an equal amount to institutions for the care of twenty-two thousand children. In the mothers' pension states last year \$10,000,000 was paid to mothers for the care of one hundred thousand children. It cost the state, in other words \$300 a year to support a child in an institution and only \$100 a year to help the mother support her child at home.

More than one thousand children in New York City will this year be taken out of institutions and restored to their mothers. Trial of the system in thirty states has proved it to be economical, humane and easily administered. In the larger cities it cost 5 per cent for the administration of the system, while it cost 76 per cent to administer charity.

Child poverty, producing defectives, delinquents, criminals and incompetents of all kinds, is one of the most wasteful evils in the community. Last year \$800,000,000 was collected from ratepayers to support institutions for dependents and criminals. The public schools themselves did not receive so much of the ratepayers' funds. By attacking child poverty with a rational system of mothers' pensions we go right to the source of one of the causes of the defective and criminal element in the community. Figures prepared by juvenile court officials in Chicago show nearly a 100 per cent efficiency for mothers' pensions as a preventive of juvenile dependency and delinquency.

A good mother is the best guardian of her children. Experience is that she very rarely abuses her trust, under the pension system; less than once in a hundred cases, statistics of the scheme show. The widow with children under 14 who needs a pension goes before the juvenile court, and, proving her need, claims her state pay for state service. She is now as much a servant of the state as a judge or a general. She must devote herself entirely to her state work and do no other. Once a month she reports to the juvenile court. Inspectors, male and female, visit her to see how she is getting on. If she is abusing her trust, she loses both her pension and her children.

Money paid for mothers' pensions returns to the public in the reduced cost of hospitals, police courts, jails and asylums. The system is a parallel to the public school system, and more than that, is necessary to it. It is folly to spend vast sums for public schools and try to educate in them children who are not properly fed, clothed and cared for at home. Child poverty is one of the greatest tragedies of the day, and the mothers' pension system destroys it.

Within ten years there will be no child poverty. No state will permit its children to go hungry or poorly clothed, and no state will tear children from their own mothers and turn them over to soulless institutions. No reform in history has swept over the land as fast as the mothers' pension system. In the space of the last six years three-fifths of the United States embraced the scheme. It took the public school system ages to develop—by comparison.

CASE FOR MOTHERS' PENSIONS¹

Speaking generally, only those men who inherit some wealth are in a position to provide for their widows and children if they are cut off prematurely. It seems likely that in the future the possessors of inherited wealth will be few, and that in consequence we shall not hear so much of the "idle rich," "leisured ladies," and the like. Every woman will be trained for some work in life. When a woman gives up the occupation for which she has been trained in order to marry, has a family and is then left a widow, the only thing which prevents her going back to her previous occupation, for which she was trained, is her children. It seems, therefore, equitable that the community should pay her for the work she does in bringing up her children until they are fit to work for themselves, and that this payment should be free from any stigma of pauperism or charity. It is not only equitable, but it must pay the state to see that the mother looks after her own children. The alternative is to let her work and get somebody else to look after the children, if the children are considered worth looking after.

¹ From article by Harold Scurfield, M.D., D.P.H., Medical Officer of Health for the City of Sheffield, England; Professor of Public Health in the University of Sheffield; author of "Infant and Young Child Welfare." Child. 10 : 193-5. February, 1920.

Mr. Harold Spender estimates that the cost of pensions for the widows with children who are at present in receipt of relief from the Poor Law, together with the cost of widows' pensions for the widows with children who are just outside the poor law owing to its deterrent methods, would be £6,000,000 per annum. This would not be entirely additional cost to the country, but would in part take the place of the expenditure at present incurred by the poor law authorities.

I think this matter of large families ought to be fairly faced. There is a lot of loose talk to the effect that people who cannot afford it ought not to have large families. Even if the state advocated Malthusian doctrines it could not enforce them.

I have sometimes heard it said that if you provide subsidies for large families it will increase the size of the families. I think this line of argument is ridiculous. Women do not have children for the fun of the thing, or because they are going to receive an allowance for the child after the birth. It is also alleged that state assistance to large families will tend to lower the minimum wage. I think this suggestion is rather fanciful and that the trades unions may be trusted to deal with it. State assistance, such as old age pensions and maternity benefit, has certainly had no effect in this direction.

As regards administration we have had a valuable experience of war allowances, and I think that most of us are able to say that on the whole the war allowances were not abused, and that the average child in this country was better fed and clothed during the war than it had ever been before. I would suggest that these widows' pensions and subsidies to the mothers of large families be paid in a similar manner to the war allowances, and that it be one of the duties of the women inspectors or health visitors of health departments to report cases of abuse. That was practically all that was done to prevent the abuse of war allowances, and I do not think more need be done in the case of widows' pensions.

There is no need to consider the disastrous results of starving the children from the national point of view. I will merely conclude by saying that to my mind we have no business to concern ourselves about the declining birth-rate until we have made a proper effort to provide for the children that come into the world at present, and to abolish the widespread evil of child poverty.

PUBLIC ALLOWANCES TO DEPENDENT
CHILDREN OF POOR WIDOWS
IN MINNESOTA¹

The problem may be narrowed and stated in the form of a question: Is the system of public grant to dependent children of poor widows a good thing for Minnesota? We find certain things to be generally admitted by the people on both sides of this question.

1. It is admitted that there are many poor widows with children in Minnesota.

2. It is admitted that widowhood is a most innocent cause of poverty, but also that the poverty of widowhood is generally complex like all poverty.

3. It is admitted that as a result of departing from the Christian idea of intimate, personal and secret charity, modern conditions seem to be compelling us to make charity increasingly remote, impersonal and *public*.

4. It is admitted that few people not actually engaged in the work of philanthropy have any conception of the "difficulties of dealing with human nature in all of its vagaries." Every-day widows with children are human beings with good and bad points, and not the products of imaginative writers.

5. It is admitted that it is not desirable nor wise to separate children from their mothers because of poverty alone; the family should be broken up only as a last resort.

6. It is admitted that the amount of relief given by the largest relief-giving agencies in the state is regarded as in general inadequate. Not all, but many societies do, "maintain adequate standards of relief but under present methods of financing and operation are prevented from meeting their own standards." It is even agreed that the prospect of approaching an adequate standard for their dependents is remote. There are, of course, certain notable exceptions.

7. It is admitted that some measures, whether public or private, have long been understood to be needed to secure for deserving widows and their children greater financial support.

¹ From article by J. J. O'Connor, Director Central Division American Red Cross, Chicago, Illinois. Minnesota Academy of Social Sciences. Proceedings. 1915 : 78-90. Northfield.

8. It is admitted that material relief—cash grants—is but one form and often but a subordinate part of the assistance needed to rehabilitate families.

9. It is admitted that there was much of evil in the old systems of public out-door relief and there is danger in returning even in a slight degree to them. There is a divergence of opinion, though, on the *principle* of public out-door relief, many people believing that public relief is not bad, *per se*, provided there are safeguards against pauperization, politics and waste. On the other hand, many sound authorities deny the adequacy of any of the safeguards yet proposed; They deny the adequacy of the safeguard of court supervision and point to notable cases of pauperization and of the incursion of politics under this system.

10. It is admitted that although the suggested remedy of social insurance may be an adequate solution the prospect of installation of a proper system of insurance is remote.

11. It is admitted that the "prevention of the production of widows" through the reduction of deaths of wage-earners caused by preventable accidents and preventable diseases is a partial solution.

With these undebated propositions in mind, we may appropriately consider the important arguments *in favor of* and *opposed to*, this type of social legislation.

1. By those *in favor*, it is stated that *families have been and are being broken up because of poverty alone*. Stories and pictures of distressed mothers separated from their forlorn children occasionally appear in the press. Attention is directed to the population of state schools for dependent children.

By those *opposed*, it is stated that *families are not being broken up for reasons of poverty alone or, if they are, they need not be broken up* as there are public agencies, volunteer charitable societies, with large and growing resources, to take care of such cases and to prevent disruptions. They maintain that no statistics have been cited, that their opponents do not distinguish between the class of children who are separated from their parents because of dependency alone, and the class of children who are separated from their parents because of the delinquency or semi-delinquency of the adults. Children of this latter group are called "dependent" children. They are not delinquent children. They are the dependent,

neglected children of *delinquent* parents. They are not the dependent children of worthy and capable *dependent* parents. It is shown that most of the inmates of state schools for dependent children are orphans and children who have been removed temporarily or permanently because of the incapacity or delinquency of their parents or guardians.

It is even maintained that there is more likelihood of children being declared dependent and separated from their parents under the operation of such a statute as we are discussing than without it as the courts necessarily scrutinize family conditions critically and with fewer concessions than do voluntary organizations. It is stated that the latter have been careful not to present a case to a court except as a last resort, when certain there are no other possibilities of rehabilitation. It is said they have been more inclined than the court to bear with family delinquency in the hope that they may prove their constructive ability.

2. *Proponents* declare that *when widows are compelled to work out their children lack the necessary care and discipline*. They allege that nursery care is not as good as home care, and that many widows lack the opportunity even to secure nursery care. They argue that growing children are in greatest need of the care of their mothers. They urge that many mothers cannot secure nursery care but must prepare a hurried breakfast for the children and allow them to "shift for themselves" the rest of the day. They maintain that children reared under these conditions are usually anaemic, subject to disease, retarded in school work, and apt to become wayward, while the expense of maintaining nurseries and shelters would finance the mother in the home.

Opponents declare that the answer to this argument is, in part, the same as to the first one presented, that *there are voluntary agencies with increasing resources which will assist in the care and disciplining of children while the mother is employed*, that mothers will be moved near nurseries by these agencies, or a new nursery established, or that mothers can, through the kindly assistance of relatives or neighbors, usually make better arrangements for the feeding and care of their children than the proponents have admitted and that the value of the shelters in most cases justify their expense.

3. *Proponents* declare that *private relief and other systems*

of public relief have not been, and are not now, adequate. They cite numerous cases where inadequate relief has been given by private agencies. They maintain that private relief is too difficult to secure and that the applicants are embarrassed by "red tape."

Opponents in answering, admit that in the main *private relief* has been and is now inadequate but state that every year "*it is becoming more generous, efficient and constructive; that it has always been more generous, efficient and constructive than public relief.*" and is now more efficient and constructive than the county grants will be. They say there is no difference between the grants to the dependent children of widows and public out-door relief. They say the voluntary agencies, such as the societies, churches, relatives, friends and employers—particularly relatives, friends and employers—will become less interested in the welfare of mothers of children who are supplied from the public treasury; that there will be a lessening of the humane impulses; that there will be dangerous reactions particularly if it is necessary to raise the tax rates to meet the drain which the allowance system imposes upon the treasury; and that careless family men will fail to provide by savings and life insurance for possible dependency of their wives and children. They cite many cases of evil results under public relief systems and many cases of excellent results under voluntary agencies. They maintain that business-like methods are necessary, that there will be much delay and a need for much supervision under the new system. It is further affirmed by the opponents that the proper ways to provide for needy mothers are by: (1) Social insurance; (2) Public institutional relief; (3) Organized charitable relief of families; (4) Voluntary help of neighbors, friends and employers.

4. *Proponents* declare that the *stigma of poor relief does not attach to widows' pensions* (e.g., grants to dependent children of poor widows), and that the widow performs a service to the community and should be compensated. The grant is compensation for the service to the state of rearing her children and is not relief.

Opponents declare that *such laws have a pauperizing tendency*; that there is essentially no distinction between "widows'

pensions" providing money grants from public funds and the old system of public relief; that "the distinction is largely a subjective difference; and that to make these grants accomplish the good they are designed to do, thorough investigation and proper administration are necessary and will not be forthcoming under the systems provided by the statute. It is claimed that public investigators are usually incompetent. It is asserted that to the minds of the ignorant, the public treasury is inexhaustible and such a law will open the way for corrupt administration of public funds for political and private purposes.

With the foregoing necessarily incomplete statement of the viewpoints of the opposing sides in mind, it must be plain that to encompass a comprehensive argument for or against this kind of public aid, would necessitate more than a twenty-minute discussion. The author's own conclusions are therefore set forth briefly and without illuminating statistics or details. I believe:

First: The Illinois legislature which passed the much-copied "Widows' Pension" law (effective July 1911), permitting the Juvenile Court to grant allowances out of public funds to the parents of dependent or neglected children was stampeded into that action. It acted without exact knowledge, without inquiry, without dependable information. In fact, it was greatly influenced by false argument. Investigation proves that the legislature was much influenced by touching stories of children torn from their mothers in Juvenile Courts because of poverty alone. There was one particularly "flagrant" case which received much "press-agenting." The author happened to have been in close touch with that family for nearly a year, and knows that the facts stated to the legislature and printed in the press were for the most part exaggerated. In fact this woman's case was among the first cases heard after the law passed, and she was refused a "pension." If she has received a pension since, the author does not know of it. All the stories were highly colored, misleading and, for the most part, fictitious. An effective argument advanced in the legislature was that the cost of the maintenance of the state institution for dependent children would be reduced enough to offset the cost of the grants, since the institutional population would be decreased through the operation

of the law. This was found to be wrong. The institutional population actually increased as a result of the law since many families in which the parents were delinquent or semi-delinquent were being kept together through voluntary aid. They were being given not only a first chance but many chances to rehabilitate themselves. When the law passed, and these cases came under the scrutiny of the Court, dissolution of the families resulted. The law was passed before the well informed social workers of the state were aware of the possibility. None of them appeared at the hearings. It was pushed by a man whose activity has since been discredited by some of the leading social workers of the county with whom he sought to associate himself.

Second. The original law, of which the present Minnesota statute is almost a word-for-word copy, was a poorly drawn law. There is only one important difference, so far as its social effect is concerned, between the Minnesota and Illinois law and that is that the Minnesota statute excludes the children of deserted mothers. The Judge of the Chicago Juvenile Court has characterized the early Illinois statute as a poor piece of legislation in form. The leading social workers of all shades of conviction agree. The law would have done much damage, in fact did do some damage. That it was not a good law was proved by the fact that at the next session of the legislature it was greatly changed. It is in need of further revision.

Third. It is unfortunate that this early law received so much press-agenting as a model measure. Strangely enough, the early form of the law was held up as a model measure months after the important modifications had been made. People were led to secure its enactment in different states without study and with much acrimonious discussion. "Mothers' Pensions Leagues" were formed, in behalf of which solicitors for signatures to petitions and for subscriptions to a magazine operated on a 50 per cent basis. Post cards and form letters were sent broadcast to emotional, unintelligent people urging them to assist in the propaganda.

Fourth. As a result of this agitation and the campaigning of the so-called "father" of the Illinois law, who is now generally discredited by leading social workers, the movement was given a start in Minnesota under unfortunate circumstances. The past president of the Minnesota State Conference of Charities and Corrections, who is the present judge of the Hennepin

County (Minneapolis) Juvenile Court and the administrator of the largest budget under the law, has stated that the Minnesota act was born of "heat not light," that it is a loosely drawn measure filled with hazards and difficult to administer. To place such poorly considered legislation upon the statute books where it could work positive harm, as the Minnesota law would have done if it had been literally interpreted and if conscientious social workers throughout the state had not rallied to the assistance of the judges, is short-sighted, and decidedly unwise. For all that Minnesota really knows today, the present law may yet work positive harm. I venture to say that it will so do, if not changed. It should be changed. The state may risk money, it has not the right to risk human character.

Fifth. Although private charity in this state, as elsewhere, has its short-comings yet, as Mr. E. T. Lies has stated, "every year it becomes more generous, efficient and constructive, and it has always been more generous, efficient and constructive than public charity."

Sixth. Although public pensions are more nearly adequate in amount they are "not as flexible in operation and not as constructive in tendency." Nevertheless, I am inclined to favor a system of public assistance to the children of widows of Minnesota in their own homes, believing it would be valuable now in communities where organized voluntary relief agencies do not operate and in communities where they apparently will not become well organized. But, I favor a change in the present system.

I believe that the best measure will provide as much or more money than the public grants do, with more adequate safeguards for the interests of the individual and the state. A more complete cooperation of the voluntary and public agencies will be necessary to provide such a system. It will not be satisfactory for the public agencies to provide the money and the private agencies the supervision, nor will it be satisfactory for the private agencies to provide the money and the public agencies the supervision. Evidently the public agency or the private agency alone will not satisfy. Some way must be found to combine the good features of both systems. Many experiments are being tried. Many of these experiments have been pushed far past the stage where Minnesota began when it passed its law.

PENSIONS FOR MOTHERS¹

As an advocate of social insurance I sharply challenge the proposal for weekly or monthly payments to mothers from public funds raised by taxation, as not in harmony with the principles of social insurance; as not being insurance at all, but merely a revamped and in the long run unworkable form of public outdoor relief; as having no claim to the name of pension and no place in a rational scheme of social legislation; as embodying no element of prevention or radical cure for any recognized social evil; as an insidious attack upon the family, inimical to the welfare of children and injurious to the character of parents; as imposing in the form in which it is usually embodied an unjustifiable burden upon the court at a time when the courts are having rather more than they can do to discharge their time honored functions to the general satisfaction; as illustrating all that is most objectionable in state socialism, and failing to represent that ideal of social justice which the socialist movement, whatever its faults, is constantly bringing nearer.

The advocacy of mothers' pensions rests in part upon opposition to, dislike of, and prejudice against, private charity, and especially against what is known as organized charity, distinguished by investigation, the keeping of records, discrimination in relief, and the insistence upon the full utilization of personal resources rather than impersonal relief funds. It is true that differences of opinion about the relative merits of private organized charity and public relief funds rest less upon evidence than upon the social philosophy and general point of view of those who differ. It is not too much to hope, however, that the numerous inquiries, official and unofficial, instigated by the present interest in this subject may bring reasonable people to an open-minded examination of the evidence and a willingness at least to take it into account. The family for whom provision needs to be made by any kind of public or private relief is and should remain the exceptional family. The ordinary expectation should be that one will provide for himself in sickness and in old age, and upon his death for his widow and orphan children. This is no utopian or antiquated ideal. It is in fact

¹ From article by Edward T. Devine, Director, New York School of Philanthropy. American Labor Legislation Review. 3 : 191-201. June, 1913.

the ordinary and all but universal ideal of American citizens. We who are engaged in relief work or in advocating social schemes of various kinds are apt to get very distorted impressions about the importance, in the social economy, of the funds which we are distributing or of the social schemes which we are promoting.

Children should be protected, as the advocates of mothers' pensions insist, but the giving of a pension by the state to the mother does not constitute such protection, and, in a large majority of instances, is not even a substantial contribution to this end. Children need protection very often because of improper guardianship, or because of ignorance and neglect of parents, or because of their own physical defects or mental peculiarities, or because they are hard to manage and discipline and their parents, even if perfectly respectable people, are not good managers and disciplinarians; because of a hundred other reasons which have no earthly relation to income. They need protection sometimes because of poverty alone, but far less frequently than most advocates of mothers' pensions seem to imagine. If the poverty which does lead to a need for protection is due to any insurable risk such as death, sickness, or old age, or even the involuntary unemployment of the bread-winner, then that need should be met by insurance, in the expense of which industry must bear its due burden, the state and the insured also doing their part according to the principles of social insurance as they are being successfully worked out in foreign countries and in some of our states. With what unholy joy will the anti-social type of employer, who now throws his maimed and mangled workers, his exhausted, worn out workers, and the widows and orphans of those whom he has slain, indiscriminately upon the scrap heap of public relief, welcome a movement which, by changing the name of this relief to widows' pensions, makes it more palatable to the widows and to sentimental reformers, and thus gives the exploiters a new strangle-hold on the exemption privileges of which they are about to be deprived. An income for widows, from a state administered fund, raised by the joint contributions of the insured and their employers, the burden lightly felt because widely distributed and borne in part by all of us who purchase the commodities in the manufacture of which the insured was engaged—that is the honorable income which I covet for every mother who is widowed by the death

of an industrial worker. In the professions and in agriculture there are obvious analogous means of making similar provision. In the comparatively few instances in which, for any exceptional reason, insurance funds would not be applicable, we would have recourse to public relief, to organized charity and to voluntary individual neighborly help.

SOLDIERS' AND SAILORS' INSURANCE

WAR RISK INSURANCE¹

What can be termed as the original War Risk Insurance Act was passed by Congress on September 2, 1914. Immediately on the outbreak of the European War, Congress, in order that the commerce of the United States might be adequately protected, created in the Treasury Department a bureau charged with the duty of insuring American vessels, their freight and cargoes, against loss or damage from risk of war.

It is to be remembered that the initial legislation did not cover marine insurance, but covered solely war hazards. Such war risk insurance was brought forth by necessity. If the commerce of the world was to be safeguarded, national legislation should be passed. No private insurance company could assume the risk except by charging the almost prohibitive rates, which, because of the peril resulting from modern warfare, it would be called upon to charge.

The original War Risk Insurance Act of September 2, 1914, was further amended to insure the crews of vessels against death or disability resulting from war.

By the legislation creating marine and seamen's insurance, the government embarked upon what proved to be the most stupendous and successful marine insurance business which the world has ever known, and which resulted in stabilizing the commerce of the entire country, as well as causing renewed confidence in the government. The vastness of the business undertaken can be easily grasped when it is known that the total amount of insurance written was \$2,390,074,384, and the success with which the bureau administered this function given by Congress, and the united support which the bureau received from our own navy as well as those of allied governments, can be appreciated when it is known that the premiums received, less claims paid, represented a profit of \$17,500,897.

¹ From article by Richard G. Cholmeley-Jones, director of the Bureau of War Risk Insurance, Washington, D.C. Scientific Monthly. 12 : 228-35. March, 1921.

With the cessation of active hostilities on November 11, 1918, the activity relating to the marine and seamen's feature of the War Risk Insurance Act was brought practically to a close.

The most widely known functions of the bureau, however, are found in the administration of the War Risk Insurance Act as it relates to soldiers or sailors allotments and government allowances, insurance, and compensation, which were provided for by the Act approved October 6, 1917.

Let us first consider the social and economic reasons that called forth this last classified legislation. Congress had passed the Selective Service Act, believing it to be the best means by which the army of this great democracy should be formed, to the end that the armed forces should be assembled and trained without discrimination to class, caste, or creed. Congress increased the pay of the enlisted man by about 100 per cent and yet felt that the drafting into military or naval service of a person would not withdraw the legal and moral obligation of each man, wherein the necessity existed, to contribute to the support of his family. The breadwinner had been taken from the home, and it was evident that some method should be devised to alleviate the attendant financial distress that would inevitably follow.

Congress further appreciated that no army, however strong in numbers, could wage a successful warfare if the morale of the country supporting such army were at a low ebb. By Article II of the War Risk Insurance Act of October 6, 1917, provision is made for the granting of allowances by the government to families and dependents of enlisted men in the military or naval service. The law required the soldier or sailor to allot a certain amount of his pay to certain classes of dependents such as a wife or child, and also to brothers, sisters or grandchildren, he might allot, if he wished, a part of his pay. To this allotment the government would add an allowance to be determined by the number of members in his family and the amount of the man's habitual contribution to their support, previous to entering military or naval service.

Successfully to carry out the terms of this legislation presented a multitude of economic and social problems. The legislation was both liberal and fair, recognizing the legal and moral responsibility of the man to meet the burden which rests upon him in supporting his family and at the same time

recognizing his inability while absent from home on military duty to discharge that responsibility.

The government, therefore, agreed to contribute its share, which might amount to a contribution of more than three times the sum which the enlisted man was required to allot for the support of his family. The Bureau of War Risk Insurance was the agency through which this aid was to be rendered. Its doors were formally opened for this purpose on October 6, 1917, with approximately twenty employees.

As a result of the administration of the allotment and allowance feature of the War Risk Insurance Act, the bureau became one of the largest financial institutions the world has ever known. Requests for allotment and allowance from October 6, 1917, to the close of this fiscal year, June 30, 1920, totaled 1,666,-607. There were in addition 2,807,093 application blanks returned on which no allotment and allowance was requested. It was necessary, however, to go over all of these forms received, in order that a proper index might be made. The total expenditure to June 30, 1920, totaled \$554,691,626.25. Certainly from an economic and social standpoint no one will question the vision of the legislation providing for allotment and allowance, nor the family economic stability that resulted.

Congress felt that, inasmuch as relief had been afforded for the period of war by providing for the dependents left behind, and inasmuch as insurance had been and still is a great factor in the family life of the American people, some provision should be made whereby the men whose insurability in a private company had been destroyed by going into the war, or, if not destroyed, would persist only upon the payment of premiums significantly higher than those of peace-time, should not individually suffer this economic loss at the hands of the government; instead, that the government should itself grant insurance to soldiers and sailors at a premium rate which took account only of peace-time risk, leaving the cost of administration to be borne as a part of the cost of war.

Congress, therefore, wrote into the War Risk Insurance Act of October 6, 1917, Article IV concerning insurance, by the terms of which insurance might be applied for by men and women in the military or naval service in amounts ranging from \$1,000 to \$10,000, payable in the event of death or total and permanent disability, no matter from what cause resultant, and

irrespective of whether or not such death or disability was incident to military or naval service. Provision was also made whereby insurance applied for during the war period could be converted into government life insurance along the same lines as insurance policies issued by private insurance companies.

By this legislation the government embarked upon an entirely new enterprise, an enterprise without parallel in the history of mankind, the stupendousness of which can be fully appreciated when it is known that in this connection 4,631,993 applications for insurance were received, which totaled a liability of \$40,284,892,500, a sum far in excess of the total amount of insurance in force with all commercial companies in the United States.

There has been a great economic question in the minds of some people since the signing of the armistice as to whether or not the government should continue in the insurance business. Should it seemingly compete with private insurance companies? Would the government in this field of enterprise promote the economic stability of the country or would it bring attendant economic distress? Should all war risk insurance be cancelled and a cash bonus substituted therefor?

These are some of the many questions that have confronted Congress and the people at large.

While the Bureau of War Risk Insurance has labored under tremendous handicaps, I believe that the time which has elapsed since the signing of the armistice has proved the stability and value of government insurance.

The government is now paying insurance, as of December 1, 1920, to 131,824 beneficiaries under war risk term insurance, which represents a total liability of \$1,169,597,021.63 to the government. This does not mean, however, that this last named amount of money will be immediately disbursed because war risk term insurance is payable in monthly installments extending over a period of twenty years.

There has been one great difficulty in the administration of the insurance feature of the War Risk Insurance Act and that has been because the work of the bureau is by legislation centralized. Legislation and appropriations do not permit of the bureau's establishing satisfactory contact in the field. Could a large private insurance company hope to maintain a high degree of efficiency were it possible to have only one central office

through which all correspondence, the writing of insurance, and the settlement of claims should be handled, and should not the bureau be allowed the opportunity of taking this great economic relief provided by insurance to the homes of all ex-service men and women? If knowledge of this opportunity could be taken to the home of every ex-service man and woman would it not react favorably upon the social and economic life of the nation as a whole? But in spite of this difficulty the approximate data as of December 1, 1920, discloses that 347,664 men and women have continued their war risk insurance amounting to \$2,882,-736,500, and 228,615 men and women have converted their war term insurance into government life insurance, the converted insurance amounting to \$775,717,000.

Can you visualize the tremendous and far-reaching economic stability to our nation should there be more than four and one-half million men and women in the prime of life who had fortified themselves and provided for their dependents by carrying insurance in the amount of \$10,000?

I must hasten to the last great feature of the War Risk Insurance Act and that is the provision for the payment of compensation. Congress desiring to be free from the pension complications following previous wars provided compensation payments in case of death or disability connected with military service, not merely a gratuity, but compensation based somewhat upon the compensation laws of the different states and computed according to the family status or the degree of disability suffered.

It should be pointed out that compensation benefits are completely distinct from those of insurance. An insurance award has no influence or bearing whatever on a compensation award for the death or disability, and *vice versa*. Insurance is a government contract with a soldier or sailor, whereas compensation is a government grant which is discontinued upon the termination of the contingency necessitating it. Payments of the benefits of insurance are payable without regard to a line of duty status, while compensation payments are dependent upon a line of duty status.

The bureau had adjudicated, as of December 1, 1920, 437,588 claims for death and disability compensation. The last monthly payment for compensation being paid to disabled soldiers amounts to \$10,164,493.09 and the last monthly payment of the

bureau to the dependents of deceased soldiers amounted to \$1,345,617.42. The total amount disbursed to December 1, 1920 by the bureau for compensation purposes amounting to \$163,979,-175.25.

In providing for the payment of compensation the bureau can justly be termed the largest employees liability company the world has ever known.

The bureau is also charged with the responsibility of providing medical care and treatment for disabled soldiers and sailors where such disability is traceable to military or naval service, and in this respect, has given medical care and treatment as of the close of the present fiscal year, June 30, 1920, to 452,609 patients with 54,779 having received hospital treatment. There are now in hospitals scattered over the entire United States approximately 23,000 ex-service men and women.

WAR RISK INSURANCE ACT¹

The War Risk Insurance Bill (H.R. 5723) which was approved October 6 last is one of the most important items in our list of war-time legislation. It embodies a comprehensive program for: (a) the support of the families of the men in service; (b) compensation for those killed, disabled, or enfeebled in service, together with provision for the reeducation of the disabled; (c) voluntary insurance at low rates, administered by government.

The bill provides for a system of "allotments" and "allowances," the former from the men's pay, the latter from government funds. The allowance is paid only if a previous allotment has been made.

The dependents are grouped for the purpose of the act into two classes: Class A, wives or children. Class B, all others.

All men who have dependents in Class A are compelled to allot a minimum of \$15.00 a month and not more than one-half his monthly pay. Within this maximum, the man must allot an equal amount to that given outright by the government in the form of allowances. This allotment cannot be waived by the man himself, and it can be waived by the wife only when she

¹ From article by Paul H. Douglas, Reed College. *Journal of Political Economy*. 26:461-83. May, 1918.

produces evidence to prove that she is able to support herself and the children without assistance from the government. After the allotment has been made the government adds an allowance graduated according to the number of dependents.

Men are not compelled to make allotments of their pay to dependents in Class B, but if they do so the government will, under certain conditions, add an allowance to the allotment. These allowances, however, will be paid only if members of Class B are dependent either in whole or in part upon the enlisted man, and if he makes an allotment of pay equal in amount to the allowance given. The enlisted man, however, is not required to allot more than one-half of his pay. Not more than \$50.00 can be paid in monthly allowances to the dependents of any one man.

It is interesting to note that prior to the passage of this act seven states had enacted legislation providing allowances for dependents of soldiers and sailors with an average monthly allowance of \$22.50 for the dependent wife and of approximately \$7.00 for a dependent child. The sponsors of the bill indeed clearly stated that state grants should be made to supplement the Federal system when the latter proved to be insufficient locally.

Excellent as this act is, it does not remove all necessity for further financial assistance. There are several groups of dependents who are not provided for by it: (1) Families of officers. Since an officer is not compelled to allot any portion of his pay, no allowance is made to his family by the government. (2) Parents, grandparents, etc., to whom no allotment is made. Since the act does not require enlisted men to allot a portion of their pay to their parents or other dependents, a large percentage of the single men in service are not doing so, even though it may be needed by dependents at home. (3) Families where the amount of the allotment plus allowance is not sufficient to meet their real needs. The maximum allowance per family is \$50.00 per month; this amount, plus the minimum allotment of \$15.00, would afford an income of \$65.00 a month or \$780.00 a year. Though this is probably sufficient at the present time for most soldier's families, it is not sufficient for all.

The compensation features of the War Risk Insurance Bill are but the logical extension of the principles of social insurance. War is a distinctly dangerous trade, and it is but just that

the employer should provide compensation for injuries incurred by the soldiers and sailors. The compensation offered is for diseases incurred as well as for injuries suffered "in the line of duty." Unlike the allotment and allowance features, compensation is provided for officers as well as for men.

The scale of monthly compensation follows:

For death: (a) For widow alone, \$25; (b) For widow and one child, \$35; (c) For widow and two children, \$47.50; (d) For each additional child, \$5; (e) One child, but no widow, \$20; (f) Two children, \$30; (g) Three children, \$40; (h) For each additional child up to two, \$5; (i) For widowed mother, \$20.

For total disability: (a) Man alone, \$30; (b) Wife, but no child, \$45; (c) Wife and one child, \$55; (d) Wife and two children, \$65; (e) Wife and three or more children, \$75; (f) No wife, but one child, \$40; (g) For each additional child up to two, \$10; (h) Widowed mother, \$10.

The act is based on the principle of compensation for impaired earning capacity without a time limit, for it reads: "if and while the disability is partial, the monthly compensation should be a percentage of the compensation that would be payable for his total disability, equal to the degree of the reduction in earning capacity resulting from the disability."

Several lamentable developments of pension administration have been guarded against by the law: (1) In order to receive compensation the man must obtain a certificate from government medical inspectors within a year from his withdrawal from service, stating that he is suffering from injury or disease likely to cause death or disability. If death or disability does primarily result from such injury or disease, compensation will be paid; otherwise not. This prevents the practice which has prevailed of old soldiers claiming compensation twenty and thirty years after the Civil War for injuries received in that war. (2) Claim for compensation must be made within five years after the cause of such compensation occurred. This has the further effect of preventing widows from filing claims as an afterthought. (3) A woman who marries a soldier later than ten years after he receives the injury from which he dies will not receive compensation from the government. The disgraceful spectacle of young women marrying old soldiers for their pensions will consequently be avoided.

Though Congress passed this bill with all its barriers against

future pension legislation, it yet raised (by means of a "rider") all existing pensions to widows to \$25.00 a month. That Congress intends to turn over a new leaf is therefore not clearly demonstrated.

The most bitterly contested article of the bill was that providing government insurance. The reasons for including insurance provisions in the bill were two: first, the non-insurability of the risks by private companies; second, the forestalling of future attempts at service pensions. The war has created two varieties of non-insurability: (a) The practical impossibility of soldiers' securing insurance from private companies. Many companies refuse to write any policies; others have fixed prohibitively high premium rates. (b) Many men now in good health will come back from the war in such impaired condition that private companies will not then insure them. Yet they may not be so disabled as to come under the compensation provisions of the act. Government insurance is then necessary to protect them.

The bill provides that every person in service may apply to the Bureau without medical examination for from \$1000 to \$10,000 insurance against death or total disability resulting from any causes either during or after the war. The insurance provided is thus general insurance and not exclusively war insurance. Only near relatives can be named as beneficiaries. The United States bears, not only the extra mortality and disability cost resulting from the war, but the cost of administration also, so that the premiums are actually lower than the normal peacetime rates. During the war and for not more than five years afterward the insurance is to be so-called "term" insurance, holding for successive terms of one year with no surrender value. Premiums are to be paid monthly and deducted for the soldiers' and sailors' pay. The insured person is given the opportunity of converting the term insurance within five years after the war, without medical examination, into some policy issued by the Bureau. If he does not do so the insurance will automatically expire.

Admirable as the act is, there are many defects which must be remedied and many administrative problems which must be solved before it can achieve all the purposes which it was designed to accomplish. Perhaps the most important defects are:

(1) Officers are not compelled to allot pay to their wives or children. (2) Allotment of pay is not compulsory to dependent parents. (3) Compensation for death or total disability is not given to dependent brothers and sisters or to other near relatives. The force of this objection is somewhat negatived by the power of protecting these relatives by government insurance. (4) Compensation is given irrespective of pay. This violates all the canons of good compensation legislation (for compensation should take into consideration the previous standard of living). It is also likely to prove an entering wedge for future pension acts, for it will be an easy matter for a future Congress to raise the compensation scale. (5) The provision for basing compensation for partial disability is so loosely worded that much ambiguity is created. (6) The government has assumed all the overhead expenses of the insurance business both now and after the war. Some of this expense, such as the original medical examination, and the soliciting of insurance by officers and other government officials, is plainly the nature of a joint cost and impossible to segregate. But part, such as the expenditure attached to the War Risk Bureau, can be easily segregated. To make no charge for this during the war may be justified because of the vital need for insurance. It is, however, impossible to approve of continuing this practice after the war. This would really amount to a subsidy to the government insurance business. It would thus give a false picture of the efficiency of government methods and would give government insurance an unfair advantage over private competitors. The case of state vs. private insurance is one that should be decided in a fair field.

SOLDIERS' AND SAILORS' INSURANCE ACT¹

The social problem presented by war risks is the same as that growing out of industrial hazards; but the appeal to a nation's sense of justice is more dramatic in the former case. This accounts, in large part, for the universal acquiescence in the policy of compensating and insuring our fighting men; an acquiescence unique in the history of compensation legislation. Even the private insurance companies have for the most part

¹ By Durand Halsey Van Doren. In *Workmen's Compensation and Insurance*. p. 265-95. Copyright by Moffat, Yard & Co. New York. 1918.

left off grumbling at the interference of the government in the insurance business, and have cooperated heartily in the administration of the new law.

No nation of modern times has ever taken lightly the duty it owes to the soldiers who fought to preserve it, and to their widows and other dependents. The common method of discharging this obligation, however, has been by a system little differentiated from poor-relief—the system of pensions. Crippled or aged warriors, the families of men killed in battle, and sometimes even able-bodied young men who emerge from the service quite as competent to earn their living as before, have been the recipients of a somewhat hectic bounty. On the other hand, deserving claimants have often been overlooked. The pension system reached its climax of absurdity and inequity in the United States in the period following the Civil War, when pensions became the tool of political aspirants, were used to buy votes, to curry favor with patriotic constituents, and to support distant relatives of long-dead veterans whose claims upon the public gratitude were of the slightest.

The pension scandals were the inevitable result of a disorganized and haphazard method of administering aid to those deemed to have deserved well of their country. No one, we suppose, will dissent from the proposition that where a man has incurred disability while fighting to protect his fellow-citizens, those fellow-citizens should see to it that his enforced non-productiveness does not result in any more misery to him than can possibly be avoided. Common justice and national egoism alike dictate a liberal policy of compensating the crippled hero, and of showing such signal gratitude for his services as to encourage others to serve as faithfully. It does not follow, however, that money bestowed indiscriminately in sporadic bursts of enthusiasm effectively accomplishes these desired ends. As in the administration of all compensation schemes, two things are essential to success: first, that the amounts paid be proportionate to the disability, and to the number of dependents deprived of support; and, secondly, that the element of charity or gratuity be dissociated from the whole scheme, so that a self-respecting man can accept the money as his just due, as the liquidation of society's obligation to him.

One feature on which we have not yet touched, despite its close relationship to the compensation provisions, is the section

providing for vocational training and rehabilitation. Of all the many wise and fore-thoughted ideas embodied in the Soldiers' and Sailors' Insurance Act, this is perhaps the most remarkable. It states, in substance, that in cases of dismemberment, loss of sight or hearing, or other injury causing permanent disability, the injured person is to follow such course of "rehabilitation, reeducation, and vocational training as the United States may provide or procure to be provided." Where taking such a course prevents the injured man from earning his living meanwhile, he may be brought back into the military or naval service under a form of enlistment which entitles him to full pay as of the last month of his active service, and his family to corresponding allotments and allowances, in lieu of all other compensation. Where there is willful failure to follow the course prescribed or to enlist, compensation payments are to be suspended until such willful failure ceases, and no awards will be made for the intervening period.

The world is already so familiar with the extensive work being done in England in training the blind and other war cripples that the mere introduction into this country of like salutary measures to deal with the problem of the disabled is no cause for surprise. We have, however, reason for self-congratulation in the promptness with which the unfortunate contingency was foreseen, and, above all, with the centralized control of relief and educative measures which the Soldiers' and Sailors' Insurance Act has introduced. If the problem of rehabilitation were left to irresponsible private agencies, no matter how philanthropic and wellmeaning, inequality and inefficiency would have been sure to follow. Moreover, the problem of the disabled of a war is a national problem, if there ever was one; and it is to the public interest that full control over the administration of the measures undertaken for its solution should be lodged in the central government. As a people, we must work out our salvation together, shouldering alike the financial burdens and the responsibility for success.

Some of the reasons for the need of vocational reeducation for disabled soldiers and sailors are outlined in a recent periodical. Such training is said to be required to insure the economic independence of these men; to conserve trade skill; to insure national rehabilitation; to avoid vocational regeneration, or lapse into a state of chronic dependence and lack of ambition;

to prevent exploitation of these unfortunates by the unscrupulous; to adjust the supply of labor to the demand; to develop new vocational efficiency. All these purposes are best promoted by a highly centralized administration, which can determine the precise needs of industry for skilled labor, and then undertake to fill those needs by training the proper number of men to do the sort of work required.

PASSING OF PENSION PLUNDER¹

1. Pensions are direct gifts from the government. The new plan provides for insurance directly by the government, or government compensation, to which the fighter himself contributes something.

2. Pensions on the present system are over-liberal for disabilities and not liberal enough for death benefits. The new plan makes the rates and payments adequate and fair—utilizing all the valuable data from our workmen's compensation acts in the several states.

3. Pensions, rightly or wrongly, have come to be regarded as needless gratuities. The new plan provides for honest, upright, fair compensation for services rendered. Pensions, moreover, tend to carry with them certain degrading and vicious abuses.

Under the old pension system military records may be "corrected"—often admitting deserters to the honorable roll of veterans—and pension claims may be filed fifty years after the war—even later than that. Private pension bills for Civil War survivors and dependents are still being introduced every day in Congress. On July 6, 1917, Senator Fernald introduced forty bills granting pensions or increases of pensions. On April 3, 1917, 1,241 of these bills were introduced—filling about fifteen pages of agate type in the Congressional Record. One Representative alone introduced 187 on that day—in an extraordinary war session of Congress!

Such grotesque and vicious practices will be much less possible under the new plan. Military records should be closed a reasonable time after the war. The government will know

¹ From article by M. Lincoln Schuster. *World's Work*. 34 : 689-92. October, 1917.

immediately what its obligations are—the number of dead and disabled, the number of dependents, and the amount due each. A sufficient indemnity will be guaranteed for each fighter so that if he is killed the family may be rehabilitated, dependent children supported until capable of taking care of themselves, the wife assisted to become self-supporting or supported until remarried, and a dependent mother or father suitably provided for. Here is the fundamental distinction between this and the pension system. According to our Civil War experience with pensions, we make the veterans perpetual charges of the government. The tendency is toward pauperization—at any rate toward humiliation. The insurance plan leaves room for individual prudence and thrift, and does not entirely eliminate self-respect. This plan is not niggardly. It will not leave veterans or dependents in want. It will give them all a square deal—adequate protection when they need it and as long as they need it. But it will not make them parasites when they are able to be self-supporting. It will not encourage fraud and wholesale deception and political demoralization. It will be honest, efficient, patriotic, and businesslike. This program—sketched here, of course, in the preliminary form—is a rational substitute for a blundering, plundering, endless, happy-go-lucky pension policy.

If we revolutionize our pension policy, it will mean more, perhaps, than we realize offhand. It will mean that we will save millions, perhaps hundreds of millions, of dollars. It will mean that we will improve the morale of our fighting forces, strengthen the self-respect of our veterans, and have no war-made paupers. But these are not the only results—nor the most significant.

It will mean that we are to puncture the pension as a political football. There will be less Congressional demoralization. It will mean that we will deprive the pork-barrel politician of his mightiest bulwark. It will mean that we will deal a body-blow to the provincialism that regards Congressmen solely as messenger-boys and "gift-grabbers" for the folks back home. It will mean that we will give Congress a little more time for real Congressional business. It will mean that we will free our constructive Congressmen from the clutches of a powerful pension ring. It will mean that we will begin to get better Congressmen. Lastly it will mean that we are to learn a striking lesson in social insurance and social legislation on a national plane,

GOVERNMENT SHOULD BEAR THE COST OF INSURANCE¹

I submit to your careful consideration the thought that in insuring the soldiers and sailors the government was insuring its own human assets. Of course, the men were of insurable value to their dependents; but they were of greater insurable value to the government. Otherwise they would not have been taken from their families to fight the battles of the entire people. It was therefore the duty of the government to assume the burden of carrying that insurance, as much so as it was its duty to bear the cost of insuring its ships. If the soldier was killed in action, it is true, his family would have lost a wage-earner; but the government would have lost an asset even more valuable. To require the soldiers and sailors and their families to bear the burden of the premiums was wholly unjust and inequitable. The men should have received their \$30 a month without deduction or abatement.

No allotments should have been charged against the pay of the men, and the allowances based on the men's allotments should have been the voluntary contribution of a grateful country for their sacrifices.

The attitude of the government toward the enlisted personnel of our army and navy was picayune. It required the soldier to assume the risk of his calling, a risk which should have been assumed by the government. It cannot be corrected by making the men a present of a bonus. It can only be corrected by returning to them the money unjustly taken out of their meager salaries. If Congress will only take this stand, it need not run the risk of humiliating them by the inevitable suggestion that they are the recipients of a bounty, a bonus, or gratuity—terms which are inherently offensive to all true Americans. Our maxim should be, "Be just before you are generous."

The war-risk insurance idea was not only founded upon an error in principle, but all the complications, confusion, and red tape that followed were only the natural result of putting the soldier, serving his country for a mere pittance, in the same category as a well-paid civil employee. To introduce a complicated system of bookkeeping requiring records to be

¹ From speech of Honorable Anthony J. Griffin, in the House of Representatives, March 31, 1920.

made on company pay rolls of deductions for war-risk insurance, as well as allotments, invited confusion and necessitated accounting and clerical work that was almost impossible to perform while the regiments were in the field or in action. There is not a member of Congress whose time has not been taken up in adjusting and straightening out the innumerable errors which have inevitably crept into so awkward and impossible a system.

And the labor is not done when the pay rolls are made out. All of the work has to be reviewed and gone over again when a soldier dies. Photostat copies of all the pay rolls are made, if extant, and the name of the deceased soldier followed down from month to month and all payments verified. The War Risk Insurance Bureau, notwithstanding the large force at its disposal, has not force enough and never could have force enough to keep up-to-date records of every soldier, sailor, and marine as it ought to have. It should be required to halt where it is, make complete records of the standing of each soldier, sailor, and marine, and the government should return to the men and their families all of the premiums so exacted.

What it will cost

The following policies or certificates of war-risk insurance are in force March 29, 1920:

Army	3,846,008
Navy	489,179
Marines	71,664
Coast Guard.....	6,618
Nurses (female).....	17,112
Public Health.....	49
Total.....	4,430,630

The average service was eleven months, and the average premium was about \$5, or \$55 for each beneficiary for the average service. The return of the premiums would therefore entail an expense of \$177,225,200.

It is approximated that 1,661,933 of the enlisted personnel made allotments. Figuring the average allotment at \$15 and the average service as eleven months, the amount due each beneficiary of this act will be \$165. The total amount of allotments to be returned will therefore be \$274,218,945. Summarizing:

The cost of returning insurance premiums will be.. \$243,684,650
The cost of returning allotments..... 274,218,945

Total cost entailed by this act..... 517,903,595

How the money will be raised

The bill provides that the money requisite to carry out the act may be paid out of any moneys in the Treasury not otherwise appropriated and by the issuance of certificates of indebtedness bearing interest at 4½ per cent per annum, which can be met by small appropriations running over a term of years. The obstacle thrown in the way of those suggesting this relief is thereby removed and your committee is relieved of the unwelcome burden of providing for bond issues, with their inevitable increase of taxation.

* * *

Further equitable features

In returning the war-risk insurance premiums and allotments you are rewarding the thoughtful, considerate soldier who was solicitous for the welfare of his family. The selfish, indifferent soldier, who took no thought of his dependents, but spent all his pay for his own gratification, would not be helped by this bill, and it is not the intention that he should be. He has reveled in frivolity while his comrades made personal sacrifices. He has had his cake and has eaten it.

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9/1/26

